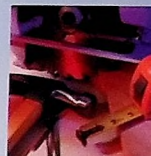


LESSONS LEARNED



# A Public Housing Guidebook



Prepared by the National Association of  
Housing and Redevelopment Officials  
(NAHRO)



for

U.S. Department of Housing and Urban  
Development (HUD)  
Office of Public and Indian Housing



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## LESSONS LEARNED

# A Public Housing Guidebook

The work that provided the basis for this publication was supported by funding under a grant to the National Association of Housing and Redevelopment Officials from the U.S. Department of Housing and Urban Development. The substance and findings of the work are dedicated to the public. The authors and publisher are solely responsible for the accuracy of the statements and interpretations contained in this publication. Such statements and interpretations do not necessarily reflect the views of the Government.

# Acknowledgements



This Guidebook was prepared as a result of a cooperative agreement between the National Association of Housing and Redevelopment Officials (NAHRO) and the Department of Housing and Urban Development (HUD). First, we are grateful for the foresight and support of Harold Lucas, Assistant Secretary for Public and Indian Housing, Department of Housing and Urban Development (HUD). Without his determination to proceed with the Guidebook, it would never have been developed.

Next we wish to acknowledge the many individuals who worked tirelessly in developing this document. They are individuals who have had long and successful careers in the field of public housing and have labored many hours in writing the Guidebook. They are Damian Colden, PE; William Crown, SPHM; William Friday; Dennis Mobley, SPHM; Ronald L. Oldham, SPHM; and Janice D. Rattley, PM. Rod Solomon, Deputy Assistant Secretary for Policy, Program and Legislative Initiatives, and William Minning, Deputy Director, Office of Policy, Program and Legislative Initiatives, HUD, provided constant assistance and insightful comments that led to the Guidebook's successful completion. Finally, there were numerous staff at NAHRO and HUD both in Headquarters and the Field who provided ongoing assistance. We are grateful to all.



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100	Project Investor



## LESSONS LEARNED

# A Public Housing Guidebook

## Introduction

Public housing represents an enormous resource for our nation. It plays a vital role in providing much-needed affordable housing and, just as importantly, giving families a "step up" to a better future. While Housing Authorities hold the "keys" to a better life for thousands of families, they also face numerous challenges. If their leaders fail to keep the organizational "vision" clearly before them, they may lose their focus and direction. Or, they may focus too strongly on the vision to the detriment of the practices needed to implement the vision. When these things happen, Housing Authorities may head toward "troubled" status or actually become "troubled" under HUD's assessment system.

During the last five years, NAHRO and HUD have participated in a cooperative agreement under which HUD has provided funding for NAHRO to work with Housing Authorities classified as troubled for the express purpose of bringing them back to "standard" performance. The contributors to this Guidebook are some of the people who have worked on that effort. They have been brought together to set down the "lessons learned" from their work with these Housing Authorities.

We feel that the experience of "lessons learned" combined with the advent of the Quality Housing and Work Responsibility Act of 1998 (QHWRA), or as it will hereafter be referred to as the Public Housing Reform Act (PHRA), with its new flexibility have provided a unique opportunity for Housing Authorities to address the needs of their



communities in more effective ways. Similarly, the performance standards provided by the Public Housing Assessment System (PHAS) have given Housing Authorities the information needed to evaluate their performance. We recognize that PHRA also revamps the voucher program and emphasizes the use of that program to meet the housing needs of extremely low-income families. However, in this document we address only the conventional public housing program since that has been the focus under the cooperative agreement

with HUD. The Guidebook is designed to give you, Executive Directors and members of the Boards of Commissioners, the essential elements that are needed to run a well-managed Housing Authority. To the extent that you may be headed toward trouble, we have suggested warning signs and then solutions (ways to address the warning signs).

### Sources of Assistance

This Guidebook is based upon the knowledge and experience that has been gained by a diverse "corps" of seasoned professionals who have worked in public housing for many years. This experience is also available to you through the U.S. Department of Housing and Urban Development (HUD) and its staff, other Housing Authorities (particularly those that have demonstrated their success), and professional nonprofit organizations representing the public housing industry.

In addition to providing funding for federal housing programs, HUD is in an especially key position to provide technical assistance about day-to-day problems and larger systemic matters. Become familiar with HUD's various offices both locally and at the national level. Generally, the best place to start with matters involving public housing would be with the field office and the Director of Public Housing for your Region. This individual will either be able to provide immediate assistance or may refer you to one of the Office's Public Housing Revitalization Specialists (particularly if a given type of expertise is required).

HUD has created several other organizational units that deal with specific program performance areas. These include the Real Estate Assessment Center (REAC) and Troubled Agency Recovery Centers (TARC). They are also available to assist you.

HUD now uses the Internet as both a means to receive reports (MTCS, PHAS, etc.) and to disseminate information about its organization, programs, and regulations. Professionals working in the field of public housing today must know how

to navigate on the Internet and through a number of HUD web sites to obtain the information that is needed to successfully run a Housing Authority. Web sites that provide excellent assistance are:

- [www.hud.gov](http://www.hud.gov)
- [www.hud.gov/reac](http://www.hud.gov/reac)
- [www.hud.gov/pih/pha/plans/phaps-home.html](http://www.hud.gov/pih/pha/plans/phaps-home.html)

and the HUD web site for PHRA implementation that is a source of links to Federal Register rules and notices:

- [www.hud.gov/pih/legis/titlev.html](http://www.hud.gov/pih/legis/titlev.html)

It is essential that Housing Authorities become familiar with the use of these and other web sites in this time of significant and rapid change. There is no better or faster way to stay informed about changes affecting Housing Authorities. You should use them regularly for updates.

There are also several national nonprofit organizations whose missions involve the provision of professional assistance to Housing Authorities. These are:

- **National Association of Housing & Redevelopment Officials (NAHRO)**
- **Council of Large Public Housing Authorities (CLPHA)**
- **National Organization of African-Americans in Housing (NOAH)**
- **Public Housing Authorities Directors Association (PHADA)**

Each provides a variety of services and expertise that may be helpful in guiding Housing Authorities and their employees down a path of excellence.

We hope that this Guidebook will be useful to you and your Housing Authority and that some of the "lessons learned" will assist you in the direction and operation of your organization.

“Forging partnerships can benefit the entire community and country.”

LITTLE ROCK, ARKANSAS



**CHAPTER 1:**

# A Housing Authority Must Use Sound Business Practices

## Important Functional Areas for Housing Authorities to Address\*

Functional Areas	Warning Sign	Solution
Comprehensive planning	No viable, realistic 5-Year Plan with a vision and mission statement, goals, and objectives accompanied by an Annual Plan. HA initiatives are not prioritized.	Develop a process that will create the vision, mission, goals, and objectives and put that information into the 5-Year Plan and Annual Plan format. Assure that priorities are well thought out.
Comprehensive planning	Planning is limited to a few key staff members; process indicates that there are a lot of disaffected residents or residents are not participating.	Identify all stakeholders (residents, Commissioners, staff, and other members of the community) and include them in the planning process.
Comprehensive planning	Planning does not include a review of the long-term future of each asset; does not relate to likely resources and/or does not consider alternative delivery systems, e.g., private management, consortia, etc.	Review the optional authority available under PHRA for possible use. Develop a plan that utilizes sound asset management principles that consider a wide variety of options for each asset (property). Make the plan a "living document" available to all.

\* These "warning signs" represent only a sample of those discussed in the following text.

**LESSON LEARNED:**

**Planning Is Essential to the Success of Any Entity. If you don't know where you're going, how will you know if you get there?**

Housing Authorities are many things.

They are

- public entities
- service providers
- landlords
- property and asset managers
- employers
- bureaucracies.

In spite of this variety of roles, Housing Authorities, just like businesses, must run their operations using sound business practices. A

business cannot succeed without a “business” plan. A Housing Authority is no different. Housing Authorities must also adhere to sound business policies and practices. The way to do this is through thoughtfully developed strategic and operations plans.<sup>1</sup>

This point is often overlooked by well-meaning leaders who mistake the commitment of providing housing and services as their sole objective. The reality of the matter, however, is that if you can't meet the payroll, you can't continue to serve the clientele. If you can't deliver services effectively, the achievement of your mission is affected. If you can't operate efficiently and in compliance with HUD criteria, you may find your Housing Authority on the verge of “troubled” status and of losing control of your organization. So in order to move towards your mission you must have something more than the best of intentions:

- You must have sound policies and practices. The development of such policies and practices starts with leadership by the Board of Commissioners, the Executive Director, and Department Directors (if any) who must set the mission, goals, standards and expectations.
- The Board of Commissioners must have the commitment to hire a competent person to serve as the Executive Director.
- The Executive Director must share the Board's mission (and may help to expand and shape it) and take responsibility for implementation by providing direction to the Housing Authority and its staff.

- The Executive Director must provide the linkage between the mission and the delivery of services that carry the Housing Authority forward.
- Once you have the above items, then you must be able to look at your “business” from an overall perspective, with the help of PHAS and other means, to determine areas of weakness, appropriateness of the organization, and achievement of stated goals.
- You must then have a **Plan**. This is in essence the “strategic plan” (5-Year Plan). One definition of strategic planning is “the process by which the guiding members of an organization envision its future and develop the necessary procedures and operations to achieve that future.”<sup>2</sup>

A difference to be kept in mind when considering private sector practices and methodologies is that for the private sector, profitability is the primary motivation. Private businesses may well be “public-spirited” and strive to conduct their affairs in such a way that the public good and environment is considered. Such a mind set is to be encouraged and commended. A Housing Authority, however, as a public entity, has as its mission the provision of affordable housing to low-income households. Thus, Housing Authorities must look at what has been called the “double bottom line.” We are suggesting in this chapter that Housing Authorities take advantage of analytical tools and ways of thinking that can help them be efficient, but business-like organizations while at the same time effectively addressing their social mission, hence the concept of the “double bottom line.”

Congress and HUD recognized that **planning by Housing Authorities is an essential element of good management**. Accordingly in the PHRA, Sec. 511, Housing Authorities are **required** to develop a “5-year Plan and an Annual Plan.”

HUD regulations describe the reasoning behind this requirement as follows:

“The purpose of the plans is to provide a framework for local accountability and an easily identifiable source by which public housing residents, participants in the resident-based assistance program, and other members of the public may locate basic PHA policies, rules and requirements concerning its operations, programs, and services” (24 CFR Part 903).

“The most important initiative is for...any public housing authority to continue to talk with its stakeholders. Invite them to your ‘front porch’ for a relaxed conversation about things that matter most to both of you. Partnering with your communities is essential for a healthy urban neighborhood.”

SAN ANTONIO, TEXAS

1. The names may vary between the private and public sector when the types of plans are discussed. Private sector businesses call them “business plans” while their public counterparts use “strategic plans.” HUD has designated the plans Housing Authorities are to use as the “5-Year Plan” and the “Annual Plan.” The name is not as important as the concept of planning behind the name and the fact that the planning process and results are very similar.
2. **Applied Strategic Planning: How to Develop a Plan That Really Works**, Goodstein, Nolan, & Pfeiffer, McGraw-Hill, 1993.



### Five-Year Plan

A carefully crafted 5-Year Plan (or strategic plan) includes the following:

- **vision**<sup>3</sup> (*what the housing authority wants to see occur as a result of its efforts*) [not required by HUD but recommended];
- **mission statement**<sup>4</sup> (*why the housing authority exists and what it is there to do*);
- **goals** (*specific areas of accomplishment that are broken down into objectives and tasks*);
- **a system of measuring accomplishments** (*so that progress towards goals and objectives may be demonstrated*); and
- **inclusion of all major stakeholders** in the process of developing the plan. (*In addition to the obvious inclusion of residents, Commissioners, staff, and service providers, HUD requires a public hearing and resident participation in the process.*)

### Annual Plan

The Annual Plan (**budget and operational plan**) must follow the development of a 5-Year Plan (strategic plan). It must be consistent with the 5-Year Plan and **must** include a statement of:

- housing needs
- financial resources
- policies that govern eligibility, selection and admissions
- rent determination policies
- operation and management
- grievance procedure
- capital improvements needed
- any demolition and/or disposition
- projects designated as housing for elderly families, families with disabilities, or elderly families and families with disabilities
- conversion of public housing to resident-based assistance
- homeownership programs
- community service and self-sufficiency programs
- safety and crime-prevention measures
- policies regarding the ownership of pets
- recent results of fiscal year audit
- asset management

HUD has provided a PHA Template for use in developing the 5-Year and Annual Plan.<sup>5</sup> It is available through the HUD web site listed under "Where can you find help in this area?" at the end of this Chapter. The use of this template is required for the submission of your plan. HUD is pursuing vigorous efforts to streamline requirements and procedures. More deregulation in this regard is anticipated in the future. The best way for Housing Authorities to stay current on these changes is through the use of the various web sites referenced earlier.

For this all to work and to support a successful Housing Authority, **the Plans must become the foundation upon which the Housing Authority bases all of its actions.** Sound policies and practices consistent with the vision, mission, goals, and applicable rules and regulations must be created and put into effect. These are then to be included in the Annual Plan that is submitted to HUD. This conceptual framework should drive the work of any Housing Authority. When it does, it will form the context within which the staff performs its daily work. Decision-making which must occur at all levels within a Housing Authority will be simplified when an empowered, informed staff understands why they are there to do what they do. In the absence of this context, employees will be isolated, ineffective, and may actually be counterproductive to the Housing Authority's mission.

### Staff Development Must Support the Plan

In this context, it is important that a Housing Authority gives priority to the development of its most precious resource—its employees. Every Housing Authority should have a Professional Development Plan for its staff to support them and enable them to do their work under the 5-Year Plan and Annual Plan.

**The employment of qualified personnel in every area of the Housing Authority is of paramount importance.** It should, nevertheless, be recognized that hiring of personnel who are already fully qualified might not always be possible. Therefore, the Housing Authority should plan to

3. A sample vision statement might read "The vision of the XYZ Housing Authority is that its collaborative efforts will result in the housing needs of all low-income households in XYZ being met in a manner that provides housing choice throughout the community."
4. A sample mission statement might read "The mission of the XYZ Housing Authority is to provide affordable housing opportunities for lower income people, including family, elderly, and special needs clients, in an environment which preserves the dignity of the client and in a manner which maintains the public trust."
5. Some Housing Authorities may be exempt from certain of the above elements because they have achieved high performer status, because they are small Housing Authorities (under 250 units), or because they have only Section 8 housing and no public housing. The Agency Plan Template provided by HUD provides specific instructions that should be followed in such cases.

train every employee for the job expected of him or her. In this regard, Housing Authorities should constantly look to residents as possible candidates for employment. Each position within the Housing Authority should have a professional development plan specific to the individual position and employee. This plan should clearly spell out:

- the skills and qualifications required of the position,
- the training available to satisfy each requirement,
- any re-certification/training requirement associated with each qualification, and
- the way in which the individual fits into the above requirements and what, if anything, needs to be done to bring the individual into full compliance.

Advancement, pay raises and other increases in compensation should be linked to the employee's progress in obtaining the required qualifications and other job performance factors.

“Local agencies must be willing to get involved with other groups and organizations, extend resources, and exchange ideas and creative solutions.”

RICHMOND REDEVELOPMENT AND HOUSING AUTHORITY,  
RICHMOND, VIRGINIA

### Warning Signs

- The absence of a **viable, realistic** 5-Year or strategic plan, and the accompanying Annual Plan with its various components.
- The 5-Year Plan's mission, goals and objectives are not consistent with the Annual Plan.
- The following attitudes voiced by staff members may demonstrate symptoms of a problem that needs to be addressed:
  - “*We don't have time to plan.*” Staff members are overloaded and possibly becoming “burned out.” The value of planning and the well-thought out guidance that it provides are lost in the frenzy of the daily work routine. The truth is that you “don't have time **not** to plan.”
  - “*Things change so fast, why plan.*” This is another example of overload and the willingness to submit to the external forces. You may not be able to change what happens to you or your Housing Authority, but you certainly can control **what you do** about it!
- Use the resources that you have (foremost of which are your employees) and **make the time** to do what is necessary.
- “*We don't get paid to plan, but to show results.*” This statement is the mantra of the operationally oriented manager or employee with short-term vision. What results are sought? Who determined them? Why are they relevant to your Housing Authority and your community? What happens when things change? A strategic plan may be out of date the day after it is printed, but with word processing technology, you can easily make “mid-stream” adjustments. The strategic plan should be a **living** document that can be revised as needed.
- “*Who needs planning? We're doing OK now aren't we?*” There is a saying that goes “if you don't know where you're going, how will you know when you get there?” What does “OK” mean to you? To your Board? To your community? How do you measure your results and productivity? Presumably, results should be measured against what you said you would do. If you don't have a plan, how can you convince stakeholders that you are headed down the right road?
- Policies and procedures are:
  - not written or poorly written and poorly understood
  - not consolidated and codified
  - not accessible or available to staff and/or the public
  - obsolete and out-of-date
- Planning does not include a review of the long-term future of each asset (property); does not relate to likely resources; and does not consider all of the options available under PHRA, which allow for alternative delivery systems, e.g. private management of selected developments, non-profit service providers, consortia, etc.
- The PHA Plan does not prioritize Housing Authority initiatives.
- The Resident Advisory Board (RAB) has expressed significant problems with the Plan. There are disaffected residents or significant non-participation by residents. The Resident Advisory Board (RAB) has been charged with the responsibility of participating in the development of the Housing Authority's 5-Year and Annual plans. These should not be finalized until a resolution of the differences can be negotiated or at least attempted.

## Solutions

If this information is news to you or your agency, getting started may not be easy. You need to do analysis and hard thinking about where you are and where you need to be. Developing a “5-Year Plan” or “strategic plan” complemented by an Annual or “operational” plan is not rocket science, but it is also not easy. It is, nevertheless, required by HUD and should be undertaken seriously. The template provided by HUD will lead Housing Authorities through the basic planning and policy decisions and should be viewed as help, not as a means of compliance. The following questions may help with your analysis and may serve to reveal where there are deficiencies or areas for improvement:

- 1) Assure that your Housing Authority has a **stated vision and mission**.
- 2) Assure that your Housing Authority has developed a **5-Year Plan and Annual Plan with goals broken down by objectives and tasks** and that the goals and objectives are consistent with the mission and vision of the plan.
- 3) Was the **5-Year Plan developed with stakeholders'** (particularly Housing Authority staff and residents) **input and participation**?
- 4) Has your Housing Authority assigned departments and individuals **responsibility for accomplishment of objectives and tasks**? Are they held accountable for assignments?
- 5) Is there an **annual budget** that describes revenue and expenditures? Does it support the goals and objectives of the strategic plan?
- 6) If appropriate for the size of the Housing Authority, do individual departments have and follow **departmental work plans** that relate to the Housing Authority's strategic plan?
- 7) Does the Housing Authority have **clearly written up-to-date policies and procedures** that are **codified and accessible** to all staff and the public? (Housing Authorities are required, along with the template, to have these policies all in one place and accessible to the public as supporting documents to the PHA Plan.)
- 8) Are all **staff thoroughly trained in all policies and procedures** (including cross-training to cover staff absences) that they must know in order to perform their duties?
- 9) Is a **plan in place to access information about current changes** in laws and regulations affecting all segments of the Housing Authority?
- 10) Has the **Resident Advisory Board participated in the planning process and is it in concurrence with the plans**?
- 11) **Analyze initiatives identified in the PHA Plan and use stakeholders to provide input about their importance to the Housing Authority.** Use this input to prioritize these initiatives and to inform the budget process so that the most important will be funded first.
- 12) Have you **incorporated the concept of Asset Management into your thinking**? We have not discussed this concept in any depth in this chapter since we believe it merits a “stand-alone” chapter. Private sector businesses use a variety of tools to assist them in their quest for success. One of these is **asset management**, a process that can feed directly into the planning process discussed above and will address viewing the long-term future of each asset (property), identification of possible resources, and consideration of options allowed in PHRA which permit alternative delivery systems. Chapter 10 of this Guidebook goes into more detail about how this may happen and how it fits into how the HUD-required Annual Plan should be constituted.

The remainder of “Lessons Learned” discusses functional areas that Housing Authorities must address in the administration and management of public housing. Each of these is important, but they must all relate to the foundation of the Housing Authority—its **vision, mission, and 5-Year (strategic) Plan discussed in this Chapter**.



**Where can you find help in this area?**

- The Public Housing Reform Act of 1998 (PHRA) (Section 511 — Agency Plan) and subsequent HUD regulations (24 CFR Part 903)
- Strategic Planning for Public & Non-Profit Organizations: A Guide to Strengthening and Sustaining Organizational Achievement, John M. Bryson, Jossey-Bass, Inc. Publishers, San Francisco.
- Applied Strategic Planning: How to Develop a Plan That Really Works, Leonard Goodstein, Timothy Nolan, and J. William Pfeiffer, McGraw-Hill, New York, 1993.
- The HUD web site with additional information on PHRA and planning: [www.hud.gov/pih/pha/plans/phaps-home.html](http://www.hud.gov/pih/pha/plans/phaps-home.html).
- Public Housing Agency Plans: Final Rule; October 21, 1999.
- PIH Notice 2000-43 (HA). PHA Plan Guidance: Streamlining of Small PHA Plans; Extension of Notices PIH 99-33 (HA) and PIH 99-51 (HA)
- Small PHA Plan Update (Template), included in PIH Notice 2000-43, September 29, 2000.
- Public Housing Agency (PHA) Plan: Streamlined Plans; Final Rule; August 14, 2000.
- PHRA Status of Implementation and Guidance Notice published December 22, 1999.
- Consultants in the field with experience in Housing Authority administration and management (be sure to obtain references and to check them as well as requesting samples of work done for other organizations).



**CHAPTER 2:**

# An Overview of the Public Housing Reform Act of 1998 (PHRA) and the Public Housing Assessment System (PHAS)

**Important Functional Areas for Housing Authorities to Address\***

Functional Areas	Warning Sign	Solution
Implementation of PHRA & subsequent HUD regulations based upon the new law	Housing Authority policies and procedures are not consistent with the new requirements.	Obtain the necessary information about PHRA and the use of its optional authority. Understand the new regulations and train staff in their implementation.
PHAS reporting and certification	Information (data) necessary to generate PHAS reports is not available or shows particular weakness.	Determine basic information needed and set up systems and procedures to collect it. Create reports and use them to determine areas of weakness and address them.

\*These "warning signs" represent only a sample of those discussed in the following text.

**I**t is no coincidence that issues relating to the Public Housing Reform Act (PHRA) and the Public Housing Assessment System (PHAS) appear in the same chapter. You should investigate and learn the flexibility that has been provided under PHRA and how to assess your weaknesses (and strengths) under PHAS.

- PHRA provides Housing Authorities with the **statutory basis** upon which a Housing Authority must operate.
- PHAS provides the **standards of performance** by which a Housing Authority may be rated relative to the statutory requirements and to its public housing peers.

**PHRA**

The Public Housing Reform Act of 1998 was the first piece of legislation passed by Congress in five years that enacts substantial revisions to the

**LESSON LEARNED:**

**PHRA has provided Housing Authorities with options and flexibility with which to address their local needs. PHAS provides key indications of whether or not they are meeting them.**

laws governing the public housing and Section 8 programs. The Act was attached to the Fiscal Year (FY) 1999 appropriations bill (H.R. 4194).

Although the Act amends the 1937 Housing Act, local Housing Authorities and other agencies currently administering Section 8 are still the principal entities empowered to administer these programs. However, the Act, establishes that, under certain circumstances, other entities can also administer these programs.

The Act required that one recipient of housing services (a public housing resident or Section 8 participant) must serve on a Housing Authority's Board of Commissioners [with the exception for Housing Authorities under 300 units where there is no interest from residents after reasonable notice]. The Housing Authority is also required to establish one or more resident advisory boards unless it can prove that a viable resident group already exists. These Resident Advisory Boards are to provide input in the development of the 5-Year and Annual Plans.

Other important provisions of PHRA:

#### *Protect Access to Housing Assistance for the Poorest Families*

- **Tenant-Based Section 8 Vouchers.** 75 percent of newly available vouchers at a Housing Authority must go to families with incomes at or below 30 percent of area median income. (This includes project-based vouchers.)
- **Public Housing.** 40 percent of newly available public housing units at a Housing Authority generally must go to the families with income at or below 30 percent of area median income.
- **Project-Based Section 8.** 40 percent of newly available units in each project must go to families with income at or below 30 percent of area median income.

#### *Reduce Concentrations of Poverty in Public Housing and Emphasize Fair Housing*

- **Admissions Plan for Deconcentration.** Each Housing Authority must adopt an admissions plan to place relatively higher income families in lower income developments and lower income families in higher income developments.
- **Fair Housing.** Each Housing Authority must affirmatively further fair housing in its program.

#### *Raise Performance Standards for Housing Authorities*

- **Mandatory Receivership.** HUD must seek receivership within two years for troubled Housing Authorities that do not improve enough to escape troubled status.
- **Physical Conditions.** The physical condition of a Housing Authority's housing becomes a performance indicator. A Housing Authority

must offer acceptable basic housing conditions to be rated a "standard" performer.

- **Rewards Performance.** The new Capital Fund formula is to contain an incentive for excellent performance.

#### *Support Families Making the Transition from Welfare to Work*

- **Earned Income Disregard.** Prohibits a public housing family's rent from being increased for one year, and limits rent increases for a second year, when a family member who was unemployed or on welfare gets a job.
- **Rent Reform.** Allows Housing Authorities to adopt other rent incentives, such as ceiling rents and income disregards, to reward residents who increase their incomes. Also mandates flat rents so that families do not pay more than market rate for their public housing unit.
- **Welfare Reform.** Provides that a family's rent will not be decreased when its income goes down because of welfare agency sanctions.
- **Supportive Services.** Requires efforts to establish cooperative agreements between Housing Authorities and local welfare agencies to target supportive services. Authorizes a supportive services program principally for public housing residents.

#### *Transform the Public Housing Stock*

- **HOPE VI.** Authorizes the HOPE VI program through 2002. HOPE VI spurs the revitalization of the nation's most distressed public housing by providing for replacement of projects with lower-density, mixed-income projects that blend into the surrounding community.
- **Demolition and Replacement.** In addition to HOPE VI, the Capital Fund may be used to demolish obsolete public housing and replace it with better quality, smaller scale projects. The "one-for-one" replacement requirement, which historically prevented the demolition of even the worst projects, is repealed.
- **Mixed-Finance Projects.** Housing Authorities may enter into agreements with private developers to combine public and private funds to develop mixed-income communities in which public housing units are part of projects with other affordable and market rate units.

- **Mandatory Conversion.** Requires Housing Authorities to tear down the most unlivable, expensive projects and instead provide tenant-based vouchers.

### *Support HUD Management Reform Efficiencies*

- **Deregulation and Streamlining.** Reorganizes Housing Authority reporting to emphasize one Annual Plan at the beginning of the fiscal year. Allows streamlined Plans for high performing and small Housing Authorities.
- **Consolidates Public Housing Programs.** Housing Authorities will receive most of their funds through either the Operating Fund or the Capital Fund. Encourages formula funding rather than labor-intensive competitions. This is done by program consolidations, absorption of the CIAP program for small Housing Authorities into the Capital Fund, and authority for HUD to provide fixed funding amounts in the Drug Elimination Program.

### *Merge and Reform the Section 8 Certificate and Voucher Programs*

- **Merger of the Section 8 Certificate and Voucher Programs.** Merges the two similar Housing Authority-administered tenant-based subsidy programs. The merger program subsidy is based on a payment standard set by the Housing Authority anywhere between 90 and 110 percent of the Fair Market Rent (FMR).
- **Conformity with Private Market Real Estate Practices.** Makes numerous reforms to expand owner participation by making the voucher program operate more like the private housing market. Reforms include the permanent repeal of the “endless lease,” the owner termination notice to HUD, and the “take-one, take-all” requirements.
- **Anti-Crime Initiatives.** Permits Housing Authority screening of applicants, in addition to the traditional tenant screening by owners. Also permits Housing Authority disapproval of owners who refuse to evict Section 8 families for drug-related or violent criminal activity.
- **Homeownership Vouchers.** Allows Housing Authorities to implement a Section 8 homeownership program. Makes needed statutory changes, such as the elimination of the prior down-payment requirements, to make Section 8 vouchers a viable homeownership resource for low-income families.

PHRA represents a new framework for Housing Authorities. While not all of PHRA's provisions may prove to be equally effective, many provide **unparalleled flexibility and opportunity**—a set of tools, if you will, with which to reshape public housing into a more effective and beneficial program for low-income households. Check the resources section at the end of this Chapter to obtain complete information about PHRA and its provisions.

### **Warning Signs**

- Policies are not current and consistent with the provisions and requirements of PHRA.
- There is no system in place to insure that existing Housing Authority policies are revised (or waivers requested) as circumstances change.
- Staff is not knowledgeable about the provisions of PHRA and policies that must be in place.
- There is no regular training (and cross-training) program that provides staff with updates on new policies and requirements.

### **Solutions**

- Executive Directors and Commissioners need to **fully** understand the provisions and requirements of PHRA and how the flexibility and thrust of those provisions may best be used. Then, based upon the Housing Authority's mission, goals and objectives, there must be a **systematic approach to using those provisions for improved service delivery and to policy and procedures development**. This must be accompanied by a **systematic approach to assuring that all employees are fully trained** in those policies and procedures.

The annual planning process that leads to the development or revision of the Annual Plan is the logical time to make adjustments to the policies used by the Housing Authority. In the past, Housing Authorities might often go for a number of years before changing their policies due to the work involved including the requirement of resident notification. This can now be rolled into the annual cycle of adopting an Annual Plan for each fiscal year. Policy changes can be included in the notice of the hearing regarding the Annual Plan.



At the time of annual planning sessions, when policy and procedural changes are identified, set target dates for accomplishing the changes and then providing training to staff.

### The Public Housing Assessment System (PHAS)

PHAS is designed to serve as an oversight and assessment tool that will objectively measure the performance of Housing Authorities according to HUD standards. Not only does it provide standards for performance, it also allows for consequences that will result from that performance. One of the key provisions of PHAS is that if a Housing Authority does not meet the minimum standards of performance, it must be declared "troubled," and, depending upon its size, may either be placed into receivership or receive administrative takeover if performance does not improve after a period of time. On the other hand, there are also incentives for high performance, e.g., extra capital funding.

HUD has structured PHAS to evaluate four major areas:

- Physical Condition
- Financial Condition
- Management Operations
- Resident Satisfaction & Service.

HUD's Real Estate Assessment Center (REAC) is charged with the responsibility for assessing and scoring the performance of Housing Authorities under PHAS. Based upon its total score, a Housing Authority will be designated as one of the following:

- High Performer (a score of at least 60 percent of the points available under each of the four indicators and an overall score of 90 percent or more of the total points.)
- Standard Performer (a score of at least 60 percent of the total points and not less than 60 percent of the points under indicators #1, #2, and #3.)
- Troubled Performer (an overall score of less than 60 percent and/or less than 60 percent on the points under indicators #1, #2, or #3. A Housing Authority may be designated as "substandard" if it achieves an overall score of 60 percent or more but falls below 60 percent in indicators #1, #2 or #3.)

Following is a discussion of each of the indicators.

#### Physical Assessment Sub System (PASS).

This indicator requires a completely new way of approaching the review of the Housing Authority's properties. The old Housing Quality Standard (HQS) criteria and forms are no longer applicable. They have been replaced with a new list of inspectable items under PASS. The Housing Authority's inspector(s) must become familiar with the definitions that accompany each inspectable item. Training programs on the methodology and equipment used (hand-held computers) are just beginning to be available. Inspections and follow-up are discussed further in Chapter 4 (Maintenance).

Under HQS, if there were deficiencies in certain areas, the unit or area would "fail" the inspection. This is no longer true under PHAS. PHAS operates on a point reduction system. Serious conditions that may affect the life, health, and safety of residents will be reported out, but otherwise the end result is an overall score, not an individual unit score. Unless the Housing Authority uses a hand-held inspection device with software identical to that used by REAC, you will not have the same information in the same format. For its own management purposes, a Housing Authority should designate a unit or area as "failing" if there are "health and safety" issues observed at the inspection and the deficiency(ies) should then be corrected immediately.

#### Financial Assessment Sub System.

This indicator assesses the financial condition of the Housing Authority through analysis of financial information filed electronically after the end of the fiscal year. The sub-indicators are:

- Current ratio (current assets divided by current liabilities)
- Number of months expendable fund balance
- Tenant receivable outstanding (average number of days tenant receivables are outstanding)
- Occupancy loss
- Expense management/utility consumption (expense per unit for key expenses)
- Net income or loss (net income or loss divided by the expendable fund balance).

These indicators are very similar to those used in private sector businesses to measure their progress. They are also discussed again in subsequent chapters as they apply to those functional areas.



### **Management Assessment Sub System (MASS).** MASS contains six sub-indicators:

- Vacant unit turnaround
- Capital funds and their use
- Work orders
- Annual inspection of units and systems
- Security
- Economic Self-Sufficiency

The criteria used under MASS generally lend themselves to quantifiable measurement. Data collection and reports should be structured to provide information for management decision-making and documentation of performance to HUD. Each sub-area should be monitored on a regular basis (monthly or more frequently). This information should be used to make mid-course corrections throughout the year. The sooner that problems can be addressed, the less the impact when the entire year's performance is computed.

The targets for successful performance should be at least "passing" or better scores under each sub-area. Documentation is essential. You must be able to verify all of the information for these sub-indicators.

### **Resident Assessment Sub System (RASS).**

RASS represents PHAS Indicator #4 (Resident Service and Satisfaction). The heart of this indicator is a resident service and satisfaction survey. REAC has contracted the surveying of residents to an independent contractor. The Housing Authority's role in the survey process is to see that the residents' addresses are correct. Even if you feel that nothing has changed, you still need to log on to the address file. Your log on tells HUD that you have looked and/or updated the file. The Housing Authority is then charged with the responsibility of notifying the residents through public meetings, posters and other related activities that the survey process is about to begin. This is an especially important part of the process. All residents receiving questionnaires need to be encouraged so that the sample is representative of actual conditions.

The survey focuses on "resident evaluation of overall living conditions." It includes the following basic areas of inquiry:

- Maintenance and repair (work orders)
- Communications (perceived effectiveness)
- Safety (perception of personal security)
- Services (programs provided for the benefit of residents)
- Neighborhood appearance (how residents perceive their community)

HUD reports that the preliminary results of these surveys are positive. The Resident Assessment is discussed in greater detail in Chapter 8 (Resident Services).

### **Warning Signs**

- Lack of adequate monitoring systems to track indicator performance.
- Result in any area of performance measured that is below standard set.
- Declining score in any area.
- Lack of immediate follow-up to correct performance in an area with a declining or substandard score.

### **Solutions**

- Be alert to the warning signs identified throughout this guidebook since they may precede actual slippage in an area.
- Anytime a score begins to trend downward or approaches a failing score, action is indicated. Each failing or potentially failing sub-area should be analyzed for possible causes. Options for correcting negative trends and problems should be implemented. For example, if the issue is lengthy turnaround times and you establish that the problem is in "make ready" time you can then focus on the functions and personnel that need attention. Keep in mind that your investigation and analysis may divulge the need for optional ways of service delivery and/or policy and procedural revisions that will result in permanent resolution of problem areas.
- Constantly review your tracking system and assure accuracy.



**Where can you find help in this area?**

- Real Estate Assessment Center website: [www.hud.gov/reac](http://www.hud.gov/reac).
- U.S. Department of Housing and Urban Development Office of Public and Indian Housing, Federal Register, Public Housing Assessment System Amendments; Technical Correction; Final Rule. June 6, 2000.
- U.S. Department of Housing and Urban Development Office of Public and Indian Housing, Federal Register, Public Housing Assessment System Amendments; Final Rule. January 11, 2000. 24 CFR 902.
- Public Housing Agency Organization; Required Resident Membership on Board of Directors or Similar Governing Body; Final Rule, Federal Register, Vol. 64, No. 203, October 21, 1999. 24 CFR 964 Subpart F.
- Quality Housing and Work Responsibility Act of 1998; Status of Implementation; Guidance, Federal Register, December 22, 1999. P.L. 105-276.
- Quality Housing and Work Responsibility Act (QHWRA) 1998.
- A Report to the President. "A Promise Being Fulfilled: The Transformation of America's Public Housing. HUD. July, 2000.

**CHAPTER 3:**

# Admissions & Occupancy

**Important Functional Areas for Housing Authorities to Address\***

Functional Areas	Warning Sign	Solution
Application of Admissions and Occupancy policies & procedures	Policies are administered inconsistently from applicant to applicant or resident to resident. Complaints may have been received in this regard.	Provide staff with training about policies and how they are to be applied; monitor for consistency by the use of quality control audits of work.
Screening of applicants for admission or eviction	There are no clear criteria for what is required for an applicant to be accepted and/or for a resident to be evicted.	Develop clear criteria that relate back to the mission of the Housing Authority; communicate these criteria to the public and applicants; make certain that staff apply criteria consistently and fairly.
Vacancy loss and unit turnaround	Average vacancy loss per unit vacated is high or is increasing.	Investigate all parts of the process from why residents are vacating to why units are out of occupancy so long; develop strategies to correct problems and foster effective teamwork.

\* These "warning signs" represent only a sample of those discussed in the following text.

**E**xplicit and accurate direction on how families may access and use low-income housing must be provided for staff, applicants, and residents.

Consequently, Admissions & Occupancy functions encompass a significant portion of the policies and procedures of Housing Authorities. With the exception of Maintenance functions which maintain and renew the housing stock, just about everything else, administration, finance, information technology, procurement and the like are staff functions that support the admissions and occupancy function. If Admissions & Occupancy functions are poorly or incorrectly

administered, a Housing Authority is very likely to be "troubled" whether or not it officially earns that distinction.

**LESSON LEARNED:**

**If your performance falters in this area, you endanger your entire operation. Admissions & Occupancy, in addition to Maintenance, are at the heart of what a Housing Authority does.**



**Two important new requirements must be adhered to in your Admissions and Occupancy policies: Income Targeting and Deconcentration.**

Income targeting establishes requirements for admission in both public housing and Section 8 to assure that a percentage of the units available is offered to families at or below 30 percent of area median income. For public housing and Section 8 project based housing, not less than 40 percent of the dwelling units made available to eligible families shall be occupied by families whose incomes at the time of occupancy do not exceed 30 percent of area median income. For Section 8 tenant based and project based vouchers, not less than 75 percent shall be families whose income do not exceed 30 percent of area median income. In carrying out these policies you will find yourself looking at preferences and waiting lists.

Deconcentration is a concern with respect to both income and race. With respect to income, PHRA is very specific in stating the policy.

**"A public housing agency shall submit with its annual plan an admissions policy designed to provide for deconcentration of poverty and income-mixing by bringing higher income tenants into lower income projects and lower income tenants into higher income projects."**

In so doing, the Authority may implement any number of incentives to achieve this mix — including, but not limited to offering incentives to attract higher income residents, reviewing amenities that are offered, etc.

To comply with deconcentration requirements, Housing Authorities will have to analyze the average incomes within their developments and devise appropriate strategies for reducing the concentrations of the lowest incomes.

With respect to race, a Housing Authority also must affirmatively further fair housing in its activities including admissions. A Housing Authority must take every reasonable step to insure that segregation is not perpetuated or additional segregation created.

**Preferences** Tenant selection preferences for households on a Housing Authority's waiting list must now be determined locally. PHRA officially eliminated federally required preferences. The size of the waiting list and the level of need in the community should determine the level of complexity of each Housing Authority's preference system. If the waiting list is fairly long, it could be argued that there is justification for having several

categories that offer assistance to those with greater needs first. For Housing Authorities with small waiting lists or one or more sites experiencing low demand, a "date and time of application" preference policy may be sufficient.

What about other options? Many Housing Authorities have included language relative to mixed income communities. One may argue that this could lead to the establishment of preferences for working families or families that are participating in a welfare-to-work type program. Also, Congress removed the requirement that single persons be housed after seniors and those with disabilities. To be able to house seniors and those with disabilities before other single individuals, a preference must be adopted.

**Waiting lists** At a minimum, Housing Authorities have an obligation to make the availability of their services known to the community so that all eligible households will have the opportunity to apply, in addition to keeping units filled. This is true even when the number of applicants results in closure of waiting lists, and it is the reason that HUD has regulations about how waiting lists are to be administered under such conditions. See 24 CFR Part 960 Subpart B for further information.

**Site-Based Waiting Lists** Prior to PHRA, a HUD waiver was required for the use of site-based waiting lists, so most Housing Authorities did not have them. Consequently, applicants were not permitted to choose the Housing Authority development in which they would like to live. This lack of choice resulted in many applicants refusing housing when it did not meet their needs. The site-based waiting list option is appealing because it gives the Housing Authority additional flexibility in deciding how to address community needs. Applicants may now select the waiting list for the development in which they wish to live. Site-based waiting lists may now be approved as part of the PHA Plan process.

If the Housing Authority's mission includes providing families with more options and there is a long waiting list, site-based waiting lists may be desirable. On the other hand, if there is little demand and various locations can be offered in quick succession, site-based waiting lists are probably not appropriate.



**Warning Signs**

- The applications process is lengthy and unnecessarily complicated.
- Waiting lists are not systematically maintained and do not include all relevant information.
- The Housing Authority's policies regarding preferences, definition of family, etc. are not reflected in the manner in which the waiting list is maintained.
- Employees in charge of admissions and occupancy are not fully and consistently trained in how to implement policies and procedures.
- Housing Authority procedures result in time spent on collecting too much information too soon, and it is outdated when the applicant is ready to be housed.
- Waiting lists are ignored in order to show favoritism or undue preference to some applicants.
- Staff administering these policies and the waiting list must be thoroughly trained in how it works and how to use it. They must be able to apply policies consistently so that all applicants receive equal treatment and opportunity. Any intentional misuse of the waiting list should be dealt with appropriately.
- Supervisors of these staff should regularly review waiting list management and practices to insure compliance and that only that information required at any given point in time is verified thereby insuring more efficient operations.

**Verification** HUD requires verification of information about the household. Generally, verification is to be in writing and from a third party to provide a record that may be audited and to guarantee the information's accuracy. There are alternative means of verification that may be used in lieu of third party sources.

**Warning Signs**

- Non-compliance with the verification policies. Missing verifications may be an oversight or they may represent something more serious such as fraud. Even if poor performance in this area is only due to carelessness, it must be corrected.

**Solutions**

- Supervisors should regularly audit a sample of applications and resident files, noting their findings, and using those findings to correct both individual problems and more systemic weaknesses. A good sample size would be 5 percent of the applications and resident files that are processed during a specific, regular interval. If problems are discovered, then the percentage may be expanded to determine the extent of the problem and its level of seriousness.
- If an ongoing pattern of serious errors or deficiencies is discovered, then every applicant and resident file may need to be reviewed.

**Screening** A landlord has a duty under the law to provide a safe living environment. If individuals are knowingly admitted who will make the community unsafe, the landlord has failed in his/her duty. Once an applicant moves in, it is not always easy or even possible to remove them. The admissions process makes two important determi-

Waiting lists can be manual lists of applicants jugged chronologically by bedroom size or they can be software applications with complicated formulas and numerous details. They must, however, be adequate for the needs of the Housing Authority in which they are being used. A list written in pencil on a sheet of paper will be inadequate no matter how small the Housing Authority. At a minimum the waiting list needs to do several things:

- ✓ Record sufficient, accurate information about the applicant
- ✓ Clearly show the date and time of the application
- ✓ Show the type and size unit needed
- ✓ Show the preferences to which the applicant may be entitled
- ✓ Other demographic information may be included on the waiting list or in the applicant file as long as it is readily available.
- Make sure that the policies describing eligibility, preferences, and placement are correlated with how the waiting list is designed and used.
- Spend the time necessary to develop a well-designed waiting list system.



nations regarding applicants for housing: 1) eligibility and 2) suitability. Statute and regulations require determination of eligibility. These determinations are usually clear-cut decisions. Suitability is covered in regulations (24 CFR 960.204) where HUD states that it is the Housing Authority's responsibility to screen for appropriate behavior and suitability, but the specifics are largely left to the discretion of the Housing Authority. (See the section on "One Strike, You're Out" exceptions below.) The Housing Authority must:

"Preclude admission of applicants whose habits and practices reasonably may be expected to have a detrimental effect on the residents or the project environment."

Further, it must:

"Establish objective and reasonable policies for selection by the PHA among otherwise eligible applicants."

Screening may include past performance in paying rent, a history of disturbances, destruction of property or housekeeping habits that may adversely affect others, and a history of criminal activity. It is left to the Housing Authority to set the criteria for these areas and to determine which applicants will be admitted and which will not. While this discretion is important, the Housing Authority must not use it indiscriminately. It also must apply the criteria in a consistent manner. Well-managed private sector rental entities are usually quite strict about screening criteria. Housing Authorities should be as well so long as they do not forget who their clientele are and that their mission is to help low-income households whose histories may demonstrate significant difficulties.

There is one mandatory portion of screening and it involves the "One Strike and You're Out" program. Compliance with "one strike" criteria is also included under the MASS certification in PHAS. Your score is affected by your compliance or lack thereof. Applicants must be screened to determine if any member of the family has been

involved with illegal drugs or if they have engaged in any other criminal activity that would adversely affect the welfare of residents or employees. If the inquiry shows illegal drug or other relevant criminal activity, the applicant must be denied. PHRA added violent criminal activities, the manufacturing of methamphetamine, and serious sex offenders to the program. PHRA also specified that individuals abusing alcohol should also be denied assistance.

Housing Authorities should use their local law enforcement agency to determine if an individual has a drug or violent crime record. The Housing Authority need not rely solely upon convictions if other documented information about an applicant and his/her behavior is available. If the person has not lived in the locality or if the local agency is unwilling to provide this information, it may be necessary to obtain it from the FBI. Evaluating this information requires establishing protocols and being sure that staff is trained in what law enforcement terms mean. In all cases, the conviction records are not to be placed in the applicant's file.

### Warning Signs

- There is no systematic, clearly understood and applied policy on applicant screening.
- Few if any applicants are screened out for good cause.
- Applicants are admitted without adequate documentation of eligibility or suitability. This may come from poor access to data.

### Solutions

- Straight-forward, fair screening criteria that take into consideration particular problems that may be faced by low-income persons. Applicants should be made aware of the criteria and how they may demonstrate that they meet those criteria.
- Assure that staff is knowledgeable about the criteria and apply them equitably, being sure to deny admission to those applicants whose records justify denial or to those applicants who do not provide sufficient documentation to support an approval.
- Take the necessary steps to assure access to needed data by establishing effective linkages in the community.

**"We must be concerned with building not just rooftops and floorboards, but bridges that develop lasting partnerships..."**

**CUYAHOGA METROPOLITAN HOUSING AUTHORITY  
CLEVELAND, OHIO**

### Lease Enforcement — Rent Collection

The concept of a Housing Authority adhering to sound business principles is especially relevant when it comes to collecting the rent. Rent collection should, therefore, be an integral part of a Housing Authority's operations. Sometimes inadequate management is the problem. Staff simply doesn't do the job that it needs to do. In other circumstances, there exists the belief that low-income households have enough challenges and they should not be pressured to pay rent on top of everything else. The problem may also be in the rent collection records keeping system.

Nevertheless, public housing rents are based upon the household's income and presumably affordable. Consequently, the concept of the rent being paid on time and in full is one that should be strictly enforced. In spite of this, it should also be understood that any household in public housing can have situations arise that will make payment of the rent difficult if not impossible. If income has been lost, a rent reduction interim review may help. (See also discussion on minimum rents.) Also the family may be referred to service agencies that might provide temporary or emergency rental assistance. If it is simply a matter of paying the rent late, a payment agreement can be made, but in the meantime, the Housing Authority should follow its rent collection policies and procedures. It would be unwise not to since some residents do not keep payment agreements. The resident should be held responsible for all late and/or legal fees incurred during the process. When the rent bill is satisfied, any pending legal action may be cancelled. Throughout the process, primary responsibility should remain with the resident to resolve the rent delinquency. This reinforces the residents' duty to see their shelter costs are met.

### Warning Signs

- Collections are less than satisfactory as described in PHAS for tenant receivables outstanding.
- Lack of an accurate, up-to-date system. Without it, lease enforcement will likely fail when it comes time to convince a court that non-payment has occurred and the lease has been breached.
- Large balances for individual accounts. It may also indicate an internal control problem with the possibility of fraudulent activity.

- Staff responsible for rent collection does not thoroughly understand the Housing Authority's policies on rent payment and lease enforcement.

### Solutions

- The record keeping system should accurately track account status and provide reports. The system need not be automated or unduly complicated, but it must be maintained accurately and posted regularly. It must give the employees tasked with collecting the rent, accurate information about balances owed over what period of time.
- In a small Housing Authority, a manual system could be sufficient, but as the size of the Housing Authority increases, more complex automated systems will become essential. With automation, custom designed reports will make management's job in collecting rent and demonstrating performance or the lack of it much easier.
- Some Housing Authorities have been effective in lowering delinquencies with late fees. However, low-income families will often pay the rent late, fully understanding the late fee as the cost of "making their money stretch." If the Housing Authority refuses to accept rent without payment of the late fee and the family cannot pay the late fee in addition to the rent, it may result in higher rent delinquencies. How a late fee system is implemented can make the difference.
- Housing Authorities that have a good rent collection track record follow the same process rigorously month after month. If rent is due on the tenth, notices should be issued on the eleventh. The best policy is not to make agreements on rents and to start collection (legal) action for each delinquency. If there are maintenance charges or a retroactive rent charge, that is another matter since such charges are in addition to the rent based upon the resident's ability to pay.
- Adequate legal counsel should be retained to handle those aspects of the legal process that are beyond staff capabilities. Judgments can be useful in some instances, but collection of delinquent vacated accounts usually occurs only when the family seeks to return to public housing.
- Networking with other local Housing Authorities to share information about vacated delinquent accounts may result in increased collections.

### Lease Enforcement — Terminations for Causes Other than Non-payment

A comprehensive, well-designed lease that has been thoroughly reviewed by legal counsel to determine that it is compliant with all state, federal and local requirements and that is consistent with your vision and mission is essential. A Housing Authority's ultimate tool in dealing with residents who cannot or will not conform to the terms of their lease is legal action to terminate and remove them from the community.

### Warning Signs

- The Housing Authority tolerates lease violations and related misconduct and fails to take appropriate action to bring behavior back to that which is normally expected. This is the beginning of loss of control of the property. Example: residents are allowed to park vehicles on lawns and to do repair work there and the property begins to resemble a used car lot or, worse, a junkyard.
- Increased or high incidence of serious crime in the public housing community.
- Few or no evictions for cause.
- Lease terminations taken to court are lost and the offending tenant remains in occupancy.

### Solutions

- Make sure your lease is well-designed, minimizing loopholes, and also in compliance with all applicable federal, state, and local requirements. While HUD provides regulatory guidance on what the public housing lease may or may not contain, there is significant local leeway. State and local jurisdictions may have

laws that impact the lease and its terms. Use legal counsel to insure that compliance.

- Assuming that the Housing Authority has done this, the Housing Authority:
  - Should have clearly explained the requirements of the lease to each resident.
  - Should have "House Rules" that further define expected behavior to give specificity to more general lease clauses. (The lease may prohibit nuisances while house rules may go further to define nuisances as noise, repairing cars on the street, hanging laundry on the front porch, etc.)
  - When a resident violates the lease terms, it is essential to take action to hold the resident accountable. When documented complaints about violations are received, the resident should be contacted to make him/her aware of the problem and what corrective action is required. Serious breaches of the lease generally require only one incident to justify a lease termination. Minor breaches of the lease require a pattern of behavior to exist before the termination will be upheld in court. In some jurisdictions, notices to correct violations of the lease may be used. For example, a ten-day notice to clean up a littered yard may resolve the problem. If the resident complies as requested, additional notices will be required for future incidents until a pattern of repeated minor lease violations is established.
  - You should involve residents, managers, police (especially beat officers) in assisting you in lease enforcement.
  - If you have problems with the courts regarding evictions, it may help to talk with judges to explain the Housing Authority's mission, policies, and HUD mandates. You may also consider taking some interested residents with you when you talk to the judge so that they can relate their support for strict enforcement in this area.

**Rents** PHRA addressed public housing rents in a number of significant ways. Minimum rents, ceiling rents, flat rents, and rent schedules at less than 30 percent of income were all covered. These changes have given Housing Authorities flexibility in creating rent systems that can truly address the specific needs of their residents and their communities.

**Required Earned Income Disregards** PHRA changes are particularly helpful to residents who are employed or who become employed after a year or more of unemployment. In the latter case, rent increases are waived for the first 12 months and after

**"The lease is your tool for good housing management. Enforce your lease. Don't be afraid to evict, go to court if you have to. Those not willing to obey our rules should not live in public housing."**

**CUMMING, GEORGIA**



that increases must be phased in over a two-year period. If under TANF, your assistance drops due to fraud or non-adherence to self-sufficiency requirements, your public housing or voucher rent is not to drop.

**Minimum Rent** The new law says that Housing Authorities may charge up to \$50 minimum rent if a family has a very low income or no income at all, but it also provides an exemption from the minimum rent. This comes into effect if the family would be evicted as a result of the imposition of the minimum rent. The Housing Authority must review the circumstances surrounding the reasons why the family cannot pay the minimum rent. If the reasons are "temporary" a repayment agreement is negotiated. Presumably, if the family doesn't keep the agreement, then they could eventually be evicted. The Housing Authority is required to notify the family of the hardship review process and that the decision is subject to review through the grievance procedure.

The Housing Authority should estimate how many families might fall under its minimum rent program. In some States, the Temporary Assistance for Needy Families program (TANF) is high enough that the rent exceeds the minimum rent amount. Housing Authorities should keep in mind that they need not set the minimum rent at \$50 or \$25. It may be \$0, which effectively means there is no minimum rent if that suits local needs.

**Flat rent** The ability to establish a rental amount for units based on market value (the real rent at which someone would rent the unit) is one of the best provisions under PHRA. It creates flexibility similar to that available in the private sector rental market. For Housing Authorities that have difficult-to-market units, it creates an opportunity to attract working families seeking rental bargains. Under the pre-PHRA rent structure such families would have had to pay rent based upon their income or a ceiling rent both of which would have probably exceeded the value of the otherwise unmarketable units.

Many Housing Authorities have elected to set their flat rents at the fair market rent (FMR) established by HUD (although the FMR is not likely to reflect a rent at which the public housing unit may actually be rented). There are some that operate developments in high rent areas where the FMR might be considered to be a good deal. On the other hand, many have the reverse situation. While the conditions of their units may be satisfactory, they have a stigma that is attached to

public housing units. The common practice of setting rents based on "comparables" in the community will be difficult at best, because there really are no private units comparable to aging public housing developments.

How should a Housing Authority go about setting a market value on its units? Regardless of whether the FMR is ultimately used as the flat rent or not, it may be a good place to start. Look at what the FMR will pay for in the private rental market. HUD has a rent reasonable spreadsheet on which you can add and deduct points based on the various attributes of a particular apartment.<sup>6</sup> See what the numbers say. Once the flat rents are initially established, monitor how many people choose the flat rent. If the numbers are high, perhaps the rent was set too low. On the other hand, if there are few takers it is probably too high. This is exactly what the private sector would do. The point is that flat rents should be set at a level at which the HAC could actually rent the unit.

Another positive feature about flat rents is that residents have the opportunity to choose between them and income-based rents. If their selection of a flat rent turns out to be wrong because of a change in their income, they have the ability to return to the income-based rent. Income reviews for flat rent families are only required every three years, a significant reduction in workload for the Housing Authority.

**Ceiling Rent** How about locations in high rent areas that would also like to attract working families? Ceiling rents could be a good way to attract and retain working families. Ceiling rents can be based on the expenses of the Housing Authority, but if the ceiling rent is not at least 75% of the cost to operate a unit (the minimum for family developments) the Housing Authority could be penalized by reductions in the Operating Fund. We should keep in mind here the fact that the operating subsidy formula continues to evolve.

**Income-based rent** Under PHRA, Housing Authorities also have the ability to set rents below 30 percent of adjusted income. This could take forms such as a percentage lower than 30 percent, an additional disregard of earned income to the disregards in earnings increases required by PHRA, and ceiling rents as discussed above. Typically, this would be done to provide additional incentives that "make work pay." The Housing Authority must bear the initial expense of such initiative under the current Operating Fund formula.

6. This useful worksheet can be found via the Internet at [www.hudclips.org](http://www.hudclips.org). Click on the "What's new" icon in the upper right corner and then scroll down to Rent Comparability — HUD 92273-58.

### Warning Signs

- Annual recertifications or reviews of income and rent are not completed on time. If a Housing Authority has more than a small percentage of its annual reviews late and if that percentage is growing month by month, corrective action is needed because HUD regulations require that not more than one year pass between reviews.
- Income and rent calculations are incorrect and policies have not been applied correctly.
- Rent setting, entering of rents onto the accounts receivable system, and the collection of rents present an area in which there is the opportunity for internal controls to break down, particularly in a small Housing Authority where only one or a few staff are involved.
- The persistence of market related vacancies despite the setting of flat rents.

### Solutions

- Supervisors should routinely audit both individual reviews and reports showing progress in completing reviews to check for irregularities.
- Audits should also determine whether or not income and rent calculations are accurate. Rents and any rent reductions in resident files should be compared to accounts receivables to catch irregularities. If patterns of incorrect calculations or other discrepancies are discovered, further investigation is indicated.
- Housing Authority policies should be clearly written for understanding by residents and by the staff who must implement them.
- Training for staff should be continuous to make sure that policies are interpreted properly and to provide information about changes to policies as required. This is especially important now that there are so many options.
- The Housing Authority should have a schedule for the conduct of the annual reviews of rent and income. Some Authorities do all of the reviews during a set time of the year while others conduct them a year from the month of initial occupancy (move-in) so that they are spread over the course of the entire year.

- Review the flat rents that have been set on a regular basis to insure that they reflect the actual market rents.

**Pet policies** Housing Authorities have, for some time, been required to permit pets in housing for senior and disabled residents. PHRA extends this policy, to family communities. Just as with the policies and procedures for senior/disabled residents, Housing Authorities are permitted to develop reasonable policies and limitations so long as the ownership of common household pets is not prohibited.

**Vacates and Unit Turnaround — Efficient operation of this functional area is absolutely critical to a Housing Authority's mission of providing affordable housing to low-income households.** Although other activities tie into this activity (having sufficient applications to lease units, etc.), housing cannot be provided if vacated units are not renovated quickly and turned back in acceptable condition. This should be what the Housing Authority does **first and foremost**. Its line and staff activities should focus on and serve to support it.

FASS looks at the financial consequences of vacant units. The MASS certification requires that a Housing Authority track downtime, make-ready time and lease-up time.

**Downtime** is the time between when management learns of the vacant unit and when the unit is turned over to maintenance for renovation. A Housing Authority should strive for this number to be "zero" days. The coordination between staff notifying maintenance of the vacancy, staff doing the move out inspection, generating the work order, and turning it over to maintenance personnel needs to be flawless.

**Prep (or make-ready) time** is the time required for maintenance personnel to renovate a vacant unit. Management personnel should be involved in the move-out inspection process. If prep times seem excessive and management has looked at the units, they at least have a feeling for the reasons. There is also a relationship between how management has permitted the family to maintain the unit and the amount of time it takes maintenance to get it ready to rent again. More aggressive unit housekeeping inspections and expectations can have a positive impact on getting units ready to rent sooner. One factor that also affects this area is what happens when major repairs are required, i.e., on excessive amount of drywall repair, etc. Having the ability to call in specialists (contractors) when the workload exceeds

the existing employees' abilities or available time is worth considering.

**Lease-up time** is the period between when management is notified that a unit's renovation has been completed and the unit is leased. If there is little demand for the unit, this period of time can be lengthy. It is difficult to keep a maintenance staff focused if units made ready are not leased and continue to sit vacant. This is especially a problem if vacant, renovated units are vandalized. A prospective resident should be identified as soon as management knows the unit is vacant rather than waiting for it to be turned back from maintenance. This might even be extended to having prospective new residents ready before a vacancy occurs. (*"Your name is next on the waiting list and while we do not have a vacancy at this time, we anticipate that there may be some at the beginning of the month."*) Most successful Housing Authorities have approved files ready whose applicants are ready to lease and move as soon as the unit is ready.

One of the most common reasons given by residents for not being able to move when a unit is offered is not having the necessary funds to pay moving costs. The Housing Authority should review its policies and practices to determine if changes are appropriate to get families into units sooner.

### Warning Signs

- The Authority does not have a standard for turn-backs that meets its needs.
- A standard exists, but it is not being met. Generally an average vacancy loss of 20 days or more per unit should be cause for concern, but many Housing Authorities have set the standard much lower, i.e. 5-10 days.)

### Solutions

- There may be organizational issues that need to be resolved and teamwork initiatives that need to be developed. This area is particularly amenable to putting together organizational units to address vacancy loss reduction from a number of different perspectives. Each of the three periods in the vacancy preparation cycle (downtime, prep-time, and lease-up time) lends itself to creation of teams of individuals again depending on the size of the Housing Authority. Unless the Housing Authority is very small, this work typically involves a number of different staff members with different duties. It is essential that maintenance and occupancy staff work closely in this area and coordinate schedules.
- **Larger Housing Authorities** will typically have a large number of personnel involved in this process because their vacancies are likely to be spread over a large geographical area and can involve many units. The type of organizational structure used by the Housing Authority (centralized or decentralized) will have a lot to do with how the work will be addressed. For example, maintenance trades persons doing electrical and plumbing repairs in the vacant units may also be doing repair work in occupied units and elsewhere. Another way to organize this work is to dedicate certain types of workers only to the renovation of vacancies. This would be especially appropriate for janitors and painters.
- Some Housing Authorities have created special maintenance teams to do only vacancies, thus insuring that resources will be focused. These teams are usually headed by a supervisor who is responsible for coordinating not only the work of the maintenance team but also the team's work with other organizational units also working on filling vacancies.
- In smaller Housing Authorities, the geographical spread and number of vacancies usually decreases with a smaller number of employees involved. A common scenario would be for the Executive Director to handle all of the management responsibilities while a maintenance worker does all of the renovation and cleaning work. While the teamwork component is very different here, the attention to detail and communication is just as important to minimize vacancy loss.



“Foster teamwork. Shared responsibility, personal integrity, commitment and dedication will lead to personal and agency satisfaction.”

FORT MORGAN, COLORADO



■ **Make sure you look at optional ways of accomplishing the turnaround of units.**

Housing Authorities of all sizes often use contractors to perform some or all of the renovation and cleaning of vacancies. One variation is to select a contractor who will do some or all of the work in vacated units. Then as vacancies come up, the contractor is informed and dispatches workers as needed to renovate the units. This may be done by the use of small purchase contracts that allow for rapid completion of smaller tasks or on a larger scale by contracting out the entire effort. Communication between Housing Authority employees and the contractor's employees responsible for the renovation work remains critical. The contract must clearly identify who has responsibility for what tasks and how and when communications will occur.

- When efforts to reduce vacancy loss days have been successful as the result of teamwork and cooperation, the Housing Authority should publicly celebrate the success for the benefit of the team members and other staff.

**Compliance with HUD requirements and reports.** As a final note under Admissions and Occupancy (A & O), there are several points that apply to all A & O functions and policies.

- **First, it is essential that a Housing Authority establish and maintain a highly motivated (empowered), dedicated, well-trained staff to administer A & O policies.** The regulations change with regularity so it is essential that supervisors insure that staff members are kept current on requirements. As suggested before, this can be done via training and/or a familiarity with appropriate web sites.
- **Second, it is absolutely critical that staff members apply policies, procedures, and regulations fairly and consistently.** The "grapevine" in most public housing communities will uncover inconsistencies and unfair treatment quickly. Nevertheless, exceptions are occasionally appropriate. The key to exceptions is that staff members are consistent and fair in how the exceptions are applied and granted.
- **Finally, in the application of A & O policies and procedures, cooperative and collaborative behavior and work practices are essential.** Applications-taking, resident selection and placement, leasing and unit renovation and unit turn-backs must be a smoothly flowing process. Close working relationships between the staff assigned various duties are required. Tracking of staff performance and enlightened, motivating supervision are a key to all Admissions and Occupancy operations. If this happens, high productivity, efficiency and effectiveness will result. Effective teamwork should be the goal.

**Where can you find help in this area?**

- "One Strike and You're Out" Policy in Public Housing, March 1996. Available from HUD's Drug Information and Strategy Clearinghouse, (800) 955-2232.
- 24 CFR Parts 5, 880, et al., (including 960) Changes to Admission and Occupancy Requirements in the Public Housing and Section 8 Housing Assistance Programs; Final Rule. Federal Register, March 29, 2000.
- 24 CFR Part 966 Lease and Grievance Procedures.
- U.S. Department of Housing and Urban Development, Office of Public and Indian Housing, Notice PIH 98-41, Ceiling Rents in Public Housing (To be read with QWHRA, Sec. 519 (d)).
- U.S. Department of Housing and Urban Development, One-strike Screening and Eviction for Drug Abuse and Other Criminal Activity, Proposed Rule, Federal Register, July 23, 1999.
- U.S. Department of Housing and Urban Development, Office of Public and Indian Housing, Notice PIH 98-20, Instructions for Obtaining FBI Criminal History Record Information.
- Federal Register, Vol. 65 No. 132, July 10, 2000, Department of Housing and Urban Development, 24 CFR Part 960, Pet Ownership in Public Housing; Final Rule, Subpart G.



# CHAPTER 4:

## Maintenance

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### Important Functional Areas for Housing Authorities to Address\*

Functional Areas	Warning Sign	Solution
Preventive Maintenance	There is no preventive maintenance system in place; maintenance is largely complaint-driven.	Develop a preventive maintenance schedule and reorganize maintenance operations to dedicate staff to completing it.
Inspections	There is no comprehensive unit and/or building systems inspection program as required by HUD and PHAS.	Develop inspection protocols and forms; assign staff to complete inspections; collect data on deficiencies for maintenance and capital plan.
Productivity of staff	Staff output is low.	Develop measures of productivity and compare to current levels of output; set standards (with staff input and involvement) and communicate to staff.

\* These "warning signs" represent only a sample of those discussed in the following text.

### Overview

Public housing maintenance is a critical area in the performance of a Housing Authority. The provision of affordable housing for low-income households is the primary reason for the existence of Housing Authorities; without the maintenance function, that housing cannot be sustained and made available.

A quality maintenance system must have the following elements:

- timelines,
- quality of work,
- effectiveness, and
- efficiency.

The maintenance system provides the framework around which all other maintenance subsystems are built. Executive Directors and Boards of Commissioners must understand that a quality maintenance program is not one that merely fixes things when they break, but is a

### LESSON LEARNED:

**Maintenance requires good planning and CONSTANT oversight. Along with Admissions and Occupancy, it represents the heart of your operation.**

**proactive, customer-oriented asset management tool.**<sup>7</sup> A proactive program can save the Housing Authority money. A proactive program will generate good customer service surveys. It will prolong the life of capital assets, and it will improve the quality of the housing that is provided.

Experience shows that troubled Housing Authorities manage a reactive maintenance work force. A reactive work force responds to service calls and measures their success strictly by the minimum HUD standards of completion time and completion rate. This type of maintenance organization settles for "If we correct 95 percent of our emergency work orders within no more than 24 hours and we have less than 4 percent outstanding work orders at the end of the year then we are a good maintenance organization." It is important that the minimum standards are met, but **to have a quality maintenance force, you must assure that the person who supervises maintenance for your authority is highly qualified for the job and understands such areas as:**

- system downtime,
- maintenance delay,
- productivity rates,
- coverage rates,
- cost avoidance,
- cost per standard hour, and
- overtime.



High performing Housing Authorities are typically characterized by the importance that they have placed on their maintenance systems and programs. **They recognize that the effectiveness of the maintenance function within the Housing Authority is directly tied to the effectiveness of the supervision of maintenance and ultimately to the success or failure of the Housing Authority's performance as a whole.** This importance is demonstrated by inclusion of the following subsystems into their maintenance system:

- annual maintenance plan
- work orders
- routine maintenance
- emergency maintenance
- preventive maintenance (sometimes referred to as scheduled maintenance)
- vacancy turnaround
- inspection program
- crime/vandalism control
- tools and equipment maintenance
- inventory control

### Annual Maintenance Management Plan

A thoughtfully developed Maintenance Management Plan is the driving force behind any successful maintenance department. The primary element of such a plan is a goal or mission statement (a departmental version of the Mission statement). The following six principles are the basis of a good Maintenance Management Plan.

1. The best productivity results when each individual in an organization has a definite job to do in a definite way and definite time. Above all, there must be effective supervision.
2. Measurement must come before control.
3. The customer relationship is the foundation of a successful organization.
4. The optimum crew size is the smallest number that can perform a job safely using a good representative method.
5. Schedule control points in a timely manner.
6. Job control depends upon definite, individual responsibility for each activity in the life of a work order.

7. In some instances, Small Housing Authorities may find that they do not have the "in-house" expertise and/or cannot afford to acquire hardware and software necessary to implement the suggestions made in this chapter. If this is the case, they may wish to contract for certain services or to join forces with one or more nearby Housing Authorities to achieve the economies of scale necessary to make these practices feasible.

## Work Order System

The purpose of creating and maintaining a work order system is to record the maintenance work that needs to be accomplished, track work assignments, track progress and completion, document materials used and provide a basis for monitoring effectiveness and productivity of the maintenance staff. A good work order system:

- will insure that the necessary resources are available to accomplish the work,
- provide data on past experiences and,
- protect the staff and Housing Authority should litigation arise.

The characteristics of an effective work order system are:

- simplicity
- capability to categorize types of work and,
- capability to analyze information

## Warning Signs

- Inadequate documentation to substantiate the performance claimed. Inability to document performance is the same as not performing at all.
- Work Orders are being handwritten prior to being entered into the computerized work order system.
- Maintenance system is largely complaint driven.
- Residents complain of poor treatment by maintenance staff.
- Lack of strict enforcement of performance standards by maintenance personnel. Work productivity is not carefully tracked.

## Solutions

- Assuming that your Housing Authority is large enough to have the computer hardware and software to support an automated work order system, work orders should be entered directly into the computer system at the time of the call. Writing the work order information by hand and then transcribing it into the official record (computer) creates additional work for the work order center employees. It may also cause the inaccurate reporting of time to complete a work order. Work order center employees should be equipped with a telephone that has a headset.

This will allow the clerk to type while on the phone. If the Authority is not large enough for these types of equipment, you need to review the work order system on a regular basis to make every effort to assure its accuracy and to track performance. Revamp the maintenance system to include preventive maintenance activities in addition to maintenance that is in response to complaints.

- Investigate complaints of poor treatment by maintenance staff. Find out if this is a Housing Authority-wide problem or only with one or more maintenance staff persons. Based on findings, take corrective action from retraining of entire staff to disciplinary action against offending staff persons.

## Routine Maintenance

Routine maintenance is work that is done in response to a request from a resident or as a result of a controlled inspection. Routine maintenance is work that is required to be done in a reasonable time from the request (generally 30 days or less), but does not pose an immediate threat to health and welfare nor endanger structures.

## Warning Signs

- There is no system for addressing routine maintenance work items in the maintenance plan.
- The time for responding to routine requests is increasing.

## Solutions

- Revise the maintenance plan to include a description of how routine maintenance work is to be addressed. This may require considerable work with maintenance personnel so that they are ready to provide input needed to put such a description into the maintenance plan.
- If response time is increasing, review your plan. Look at the type of supervision that is being provided, staff training and quality controls that may need to be implemented.



### Emergency Maintenance

Emergency maintenance is that work that needs to be undertaken immediately (within less than 24 hours) to prevent structural damage to the facility or mitigate a situation that poses a risk to the health and welfare of residents. Care needs to be exercised in developing the list of emergency situations, since too broad a definition may include non-emergency items and will make it difficult to properly categorize and prioritize the work and meet PHAS standards.

Housing Authorities need to address how after-hour emergencies will be handled, i.e., who will take the call, whom do they call, what the response time needs to be, etc.

### Warning Signs

- Emergency maintenance work is not completed or abated within 24 hours of being reported.
- The work order system does not track emergency work orders so that documentation can be provided to HUD under PHAS.

### Solutions

- Revise the maintenance plan so that emergency maintenance work is given priority and supervisors are held accountable for repair or abatement within 24 hours.
- Create or obtain a work order system that permits tracking of emergency work orders.

**“A preventive maintenance system should be in place and then followed.... The preventive maintenance program helps to prevent unexpected problems and in many cases, excess costs. Don't allow small maintenance problems to backup; fix them daily or weekly.”**

**ALLEN PARK, MICHIGAN**

### Preventive/Scheduled Maintenance

Preventive/scheduled maintenance is work that is undertaken on a scheduled basis to prevent the breakdown of major equipment and the deterioration of facilities. An effective preventive maintenance program includes regular inspections, replacement of minor parts and consumables, regular service to equipment and systems, and timely repair of identified deficiencies.

An effective preventive maintenance program is key to gaining control over a Housing Authority's maintenance workload. Too often Housing Authorities maintain that there is not time to do preventive maintenance. This is a prime example of “cutting off your nose to spite your face.” The results of proper preventive maintenance are proven to:

- reduce customer requested work orders
- increase mean time between failure of major equipment
- reduce repair costs
- identify required equipment replacements early, and
- improve customer (resident) satisfaction.

Appropriate schedules of inspections and the list of inspectable items for each piece of equipment or building system must be developed. These schedules are normally based on manufacturers' recommendations, acceptable industry practices, or local codes or other requirements. A system of monitoring must be established to insure that the inspections have been completed as required.

### Warning Signs

- Preventive maintenance (PM) work orders are not being completed or there is no PM schedule.
- An increase is noted in the number of emergency or urgent work orders.

### Solutions

- Establish a PM schedule for all major building systems, equipment and tools. Issue work orders on a monthly basis for the PM that is scheduled for the month. Include inspection of PM work orders in your quality control inspection plan.
- Review work orders to determine if emergencies are being caused by lack of or improper preventive maintenance. If so, step up preventive



maintenance efforts to bring the situation under control. If not, conduct quality control inspections for defective materials and initiate appropriate actions for replacement and/or suspend purchasing of the defective materials.

### Vacancy Turnaround

A vacancy turnaround system is vital to establishing the policies and procedures related to making a unit ready for occupancy. The vacancy turnaround system should provide the reporting mechanisms needed to track a unit from the time it is vacated until it is re-occupied. This topic was previously discussed in Chapter 3.

### Warning Signs

- Average days vacant per vacated unit are high and/or are increasing.

### Solutions

- Set out to determine the causes of the high vacancy level.
- Develop protocols and build team consciousness around vacancy renovation and leasing activities.
- Set goals for the team or teams and hold employees accountable for attaining the goals.
- Look at these recommendations in conjunction with those outlined in Chapter 3 to address this area.

### Inspection Program

Housing Authorities are required to make unit, building systems, sites, common areas and exteriors inspections annually under PHAS. These are discussed briefly below and should be analyzed to consider ways to improve the Housing Authority's PASS score.

**Units** HUD requires each Housing Authority to inspect every unit in its inventory every year. REAC will also inspect a sample of the occupied units using a randomly generated list. To do well, the Housing Authority's inspection and repair process must identify all of the items that the REAC inspector may observe and correct any deficiencies. There may be problems observed that would require major renovation to correct. A

Housing Authority is required to document that such information is included in its Capital Fund planning.

Many Housing Authorities have lost points in the REAC inspection due to items that are easily corrected. Inspections and correction of deficiencies before the REAC inspector arrives will help to increase the Housing Authority's score. Another alternative would be to conduct inspections over the course of the year and then do another "follow up inspection" shortly before the inspector arrives to correct last minute deficiencies. Depending on the size of the Housing Authority, this may not be feasible, but even visiting a portion of units prior to the REAC inspection may prove fruitful.

**Sites, Building Systems, Common Areas, & Exteriors** Inspections of the site, along with building systems, common areas and building exteriors should take place as early in the Housing Authority's fiscal year as possible. Work items identified under these areas typically take more time to correct. The ideal situation is for management to frequently walk the site, doing "mini" inspections throughout the year. Another complete walk-through should occur prior to the REAC inspection, again allowing enough time to correct noted deficiencies. **Inspecting the physical plant and initiating repairs is at the core of a Housing Authority's business.** Formalizing the process through PHAS cannot help but improve the conditions of public housing nationwide.

**Documentation** The Housing Authority must be able to verify that it did, in fact, inspect every unit and all of the related systems on an annual basis. HUD has not yet specified how this information is to be maintained. Keeping a unit file separate from the resident file is completely optional. **What is not optional is having a system in place to document that identified work items are converted to work orders and linked to the Capital Fund planning function.** For small Housing Authorities, this link could be nothing more than providing a copy of the inspections to the Executive Director. For very small Housing Authorities where the inspector is the Executive Director, reviewing the inspection forms prior to completing the Annual Plan and 5-year plan may suffice. Large Housing Authorities may computerize the process if inspections are conducted using a computer similar to the REAC inspector's computer. The information may then be downloaded to analyze and generate reports. **The level of detail is not the issue, only that the**

information is used to update the planned Capital Fund activities. See Chapter 9 for a further discussion of the Capital Fund.

In addition to these inspections, Housing Authorities should be performing other ongoing inspections such as:

- preventive maintenance inspections
- move-out/move-in inspections
- vacancy preparation inspections
- underground systems inspections
- quality control inspections

Each inspection should be documented and discrepancies should be entered into the work order system for corrective action.

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### Warning Signs

- PHAS inspection requirements are not being observed (inspections not conducted annually; major deficiencies not coordinated with Capital Fund planning).
- Building system inspections are not being completed.
- Unit conditions do not come close to matching inspection findings.

### Solutions

- Inspectable areas under PASS must be identified and inspection protocols developed.
- Inspectors must be trained in PASS criteria and priorities.
- An inspection schedule that meets the needs of the Housing Authority and that precedes the REAC inspection must be established.
- Establish a systems inspection schedule for all major building systems.
- Issue work orders for each system inspection that is scheduled for the month. Include review of inspection reports in your quality control plan.
- Investigate the causes for variance in actual unit conditions from inspection findings. Provide training to staff and enforce policies and standards.

### Crime/Vandalism Control

Each Housing Authority should have a crime and vandalism control system. There should be specific policies spelled out in the maintenance management plan regarding actions to be taken in dangerous situations. The work order system should be capable of coding a work order as being related to crime or vandalism. This will make identification of the costs to the Housing Authority easier, and in the case of prosecution of those responsible for damages, the amount of damages can be easily documented.

### Warning Signs

- Graffiti and/or vandalism are on the increase and are beginning to account for a considerable amount of maintenance personnel time.

### Solutions

- Make repairs immediately to avoid the "broken windows" syndrome (early indication of problems). See Chapter 7 for a discussion of "broken windows." Look for the causes and work with local police and others to eliminate them.

### Tools and Equipment Maintenance

Another element of the overall maintenance program is the monitoring, inspection and maintenance of tools and equipment belonging to the Authority. Tools may include anything ranging from hand tools to lawn equipment to trucks, tractors and trailers. The proper maintenance of Housing Authority equipment will reduce overall costs and insure that equipment is available for use when needed.

### Warning Signs

- There is excessive equipment downtime.

### Solutions

- Review equipment inventory for appropriateness. Dispose of anything that you do not use regularly. For equipment that is down and only used periodically, consider leasing as required to satisfy needs.

## Inventory Control

It is important for the maintenance staff to exercise proper control over the inventory that is required to complete work orders. A proper inventory control system should include both signing for materials and reporting on the work order the quantity used, with excess materials being returned to the warehouse for restocking. The maintenance staff also needs to understand how the warehousing and purchasing system works to insure timely restocking of maintenance supplies. See Chapter 5 for additional discussion of this topic.

## Maintenance Control Reports

Without accurate control reports that reflect the true situation, a maintenance manager will only be making decisions by "instinct." More often than not, that instinct will be incorrect. A minimum list of control reports and acceptable standards is essential. You can find a list of such controls and standards in *Maintenance Manager's Standard Manual*, Second Edition by Thomas A. Westerkamp. These standards are commonly used in the private maintenance sector and can be very useful in managing Housing Authority maintenance operations. You should become well acquainted with the standards but by all means make sure your maintenance supervisor is fully knowledgeable about them and uses them. The areas they cover are:

- **Performance** — Comparison of the maintenance technician's actual time on a task to the standard hours for the assigned task. Expressed as a percent of standard time.
- **Coverage** — Measurement of the time on task as a comparison to actual hours paid. Indication of the amount of time that a technician was available on a specific task as a function of paid hours. Expressed as a percent of actual hours paid.
- **Delay** — Measurement of non-productive time as a function of total hours paid for. Expressed as a percent.
- **Productivity** — Measurement of overall workforce productivity as a ratio of total standard hours produced by the maintenance workforce to the total number of hours clocked.
- **Level of Output** — A comparison of the number of units of output received for labor hours paid.

- **Overtime** — A comparison of the number of hours of overtime paid to the total number of hours clocked in.
- **Down time** — A comparison of the number of hours that equipment or facilities are unavailable to the total scheduled hours for that equipment or facility.

The use of such measurement standards can tell the maintenance manager how effective the maintenance function is and provide guidance for improvement.

## Warning Signs

- Supervisors are unaware of worker productivity rates and/or cost per standard hour.
- Supervisors are unable to determine work force productivity.
- Low productivity is observed.

## Solutions

- Assure that a control report is generated on a regular basis that shows the productivity rate for each worker and/or cost per standard hour. Set overall goals in these areas for the maintenance department. **Make supervisors accountable for meeting those goals.**
- Insure that standard hours are assigned to each work order. Generate a control report that compares standard hours to actual hours. Review and adjust standard hours if necessary. Make front line supervisors responsible for productivity of assigned trades persons.
- Review the entire maintenance organization for skill-appropriate staffing.
- Insure that appropriate crew sizes are assigned to projects and appropriate sized staff to developments.
- Insure that work assignments are appropriate for the skills of the trades persons. If necessary, reorganize for more efficient operations. Look for "culprits" such as excess driving time to and from jobs.

**Where can you find help in this area?**

- *Maintenance Manager's Standard Manual*, Thomas Westerkamp.
- Public Housing Assessment System (24 CFR Part 902) January 11, 2000.



**CHAPTER 5:**

## Finance

**Important Functional Areas for Housing Authorities to Address\***

<b>Functional Areas</b>	<b>Warning Sign</b>	<b>Solution</b>
Internal controls	No system of internal controls exists or, if present, is poorly understood and not used.	Work with auditor and/or accountant to develop a system of internal controls; document it; and train staff.
Audits	Audit is not completed on time or when completed contains findings or significant management letter issues.	Make certain that audit contract contains clear language about due dates; enforce those; take steps to address and close all findings and recommendations as soon as possible.
Investments	Investments are made based upon unacceptable criteria.	Obtain and learn requirements by federal and state government on public investment criteria; develop policies incorporating these.
PHAS Financial Indicators	There are problems with one or more sub-indicators, i.e. scores are low or headed in a negative direction.	Analyze problematic sub-indicators and take corrective action as required.
Operating Fund/Capital Fund	There is continued reliance on the Capital Fund to balance the operating budget.	Analyze the operations budget to determine if there are cost savings that may be achieved or revenue enhancement so as to reduce reliance on Capital Fund transfers.

\* These "warning signs" represent only a sample of those discussed in the following text.

### Overview

The area of finance and the underlying controls has gotten many an Executive Director in trouble merely because adequate attention was not paid to it. The following information will describe the basics of a financial management system:

### Key Elements of a Financial Management System

The following are key elements of any sound financial management system. The information pertaining to these elements must be made available in a timely and accurate manner. Careful attention must be paid to sound budgeting and expenditure practices in particular. At a minimum, you should make sure that you receive the following information within the time-frames noted.

- Six-month and year-end financial statements (HUD Form 52599, Statement of Operation Receipts and Expenditures. (Provides actual spending vs. budgeted amounts for every line item.)
- Monthly or quarterly reports on the status of expenditures vs. budget;
- An analysis of the Operating Reserve;
- An analysis of rent collections and rent collection policies and procedures;
- An explanation of the development of the annual operating budget and schedules;
- An analysis of staffing levels vs. units and a trend analysis;
- An explanation of any pending litigation and contingent liabilities;
- Status and analysis of Tenants' Accounts Receivable;
- Inventory;
- An explanation of the agency's internal controls;
- A review of any findings of the annual audit;
- A report on any findings from HUD reviews of agency financial activities.

### LESSON LEARNED:

**Executive Directors should understand the basics of Housing Authority Finance requirements and then hire a competent, professional finance staff or contractors.**

Recognizing that the above list represents the key elements of any good system, the following discussion is provided to give you a broader view of some of the underlying principles needed for a good financial system.

### Internal Controls

Internal Controls exist to reduce the risk of improper use of Housing Authority resources. Housing Authorities, like any other business entity are subject to theft, fraud, misuse of funds and mismanagement. Any Housing Authority, regardless of its size, is expected to establish and maintain adequate internal controls to prevent this from happening.

Housing Authorities should complete an internal control questionnaire each year to identify those areas of finance and administration that may need to be changed to protect the assets and operations of the Housing Authority.

Internal Controls consist of the plan of an organization and all of the coordinate methods and measures adopted within a Housing Authority to safeguard its assets and resources. These include checking the accuracy and reliability of the accounting data; promoting operational efficiency and encouraging adherence to prescribed administrative and managerial policies.

Internal controls are generally thought of as financial controls when, in fact, these controls are broken down into both accounting and administrative controls. It should be noted that all operations of an authority are subject to audit by an independent auditor based on internal policy and procedures.

Accounting controls consist of the plan of organization and all policies and procedures established to safeguard assets and the reliability of the financial records. A common internal control is the requirement of a countersignature on checks.

Administrative internal controls consist of policies and procedures mainly concerned with the operational efficiency and adherence to the strategic plan of the Housing Authority.

Both accounting and administrative internal controls become a basis for either internal or external audits. It is extremely important that a good system of internal controls be established. It is possible, even for very small Housing Authorities, to establish adequate internal controls systems by using outside resources. Examples of these are fee accountants, banking services and other "outsourced" services. Fee accountants or auditors should be able to provide an internal control questionnaire, which can be completed by

the Housing Authority staff. Staff can then identify and correct noted deficiencies.

### Warning Signs

- The bank statement is not in balance or has not been balanced for over two months.
- There are errors on the financial statements due to misclassification of revenues or expenditures.
- Reports requested by management are not provided or when provided, they are inaccurate.
- Resident files cannot be found when needed.
- There is no system of checks and balances to safeguard the financial system of the Authority.

### Solutions

- Make balancing the bank statement an immediate priority. Cash is the most important control item in internal control.
- Communicate to staff the importance of accurate financial statements. There may be a need to evaluate staff members' competencies and to provide training on proper procedures to reduce errors and improve accuracy.
- Evaluate duties of staff and their priorities, making certain that they understand the importance of delivering management reports as requested and on time. Determine if this is a capacity problem (not enough time to provide the reports) or a failure to understand the need for such reports.
- Review procedures for using and filing resident records. Provide training to staff with access to resident files.

### Inventory

Good business practice dictates that the Housing Authority must have written procedures that protect and secure material and capital assets. Inventories for Housing Authorities are separated into two categories. The first are capital assets. The second are materials on hand that are to be used to provide service to residents and employees.

Capital asset inventory consists of assets of the Housing Authority that are tangible, have a useful life of more than one year and costs greater than

the threshold set in the capitalization policy.

Examples of this are:

- Real estate owned (developments)
- Buildings and equipment (air conditioners, hot water heater, ranges and refrigerators and other equipment)
- Office furniture and equipment, maintenance tools and Housing Authority-owned automobiles and utility vehicles and other assets.

The materials inventory can be described simply as the materials bought to repair and maintain the property. The inventory of the items in both categories is required yearly and the dollar value must be balanced to the master account in the general ledger. Refer back to Chapter 4 — maintenance.

### Warning Signs

- Too much staff time is being used to pick up stock parts.
- There are significant amounts of missing parts and materials from the inventory.
- Inventory of parts and materials is not taken yearly as required by HUD

### Solutions

- Review the procedure for the number of each item to be stocked and insure that inventory is reviewed weekly. It may be possible to solve this with computerization of all supplies in inventory.
- Provide tighter control over the stock room(s). The number of personnel with access may need to be limited to fewer staff authorized to fill requests for materials and parts. Institute controls through use on the job by linking parts and materials used on each work order to the inventory.
- Make certain that staff responsible for the annual inventory understand its importance and hold them accountable for its completion.



### The Accounting System

To be a viable and competitive Housing Authority, there is a need for an accounting system that meets the requirements of HUD and State government as well as Generally Accepted Accounting Principals (GAAP).

Each Housing Authority must have a system in place to record, classify, allocate and summarize into report format the results of the operations of the Housing Authority within an accounting cycle. Recently, there have been multiple changes in federal and state laws and regulations that require the Housing Authority accounting systems to be very flexible as to what can be recorded as data and used to comply with those changes. The ability to use the Internet to report accounting data is also becoming a must and will continue to be so in the future.

Most authority accounting systems are computerized at this time or have much of their data computerized. One of the problems is the difficulty and the cost of changing the software to comply with recent changes in the laws and regulations. In addition, many of these changes were required after the accounting cycle had begun. This makes comparison to prior years difficult. Changes in the accounting requirements during the current accounting cycle also make budget versus actual financial data appear incorrect. It may be necessary to re-state the accounting data such that the same rules apply to both of the accounting periods you are reporting. Budget revisions may also be required.

Accuracy in the accounting system is essential because HUD computes various factors in the PHAS scores of the Authority using the data from that system. Information regarding accounting requirements can be found in:

- *HUD Public Housing Authorities GAAP Conversion Guide*
- *Financial Data Schedule Line Definitions and Crosswalk Guide*
- *Financial Indicators Methodology & Analysis Guide*
- *Guidelines for PHA's and Independent Auditors*

These guidebooks are available at the Real Estate Assessment Center Internet site.

### Warning Signs

- Requested reports are not provided in a timely, accurate manner.
- HUD reports are returned with changes.

### Solutions

- Financial statements must be timely in order to react to problems that are brought out by the analysis of the data.
- Small Housing Authorities may use an outside fee accountant in place of having staff on hand.
- Set a written schedule as part of the goals of the accountant, including the outside fee accountant, if applicable showing due date for reports.
- Identify the HUD changes and compare the amounts to the general ledger amounts. There may have been missing journal entries from a prior period. This may be caused simply as the result of errors or a lack of understanding on the part of staff as to how to complete the reports properly. Training will generally correct this type of problem.

### Audits

Yearly independent audits are required for Housing Authorities.<sup>8</sup> HUD regulations explain these requirements. Audits are valuable to management because they point out areas of the Housing Authority operations that need improvement. They also reveal whether or not a Housing Authority is doing a good job of management.

Likewise the audit will determine the adequacy of the Housing Authority's financial and records keeping systems. The audit requirements can be found in HUD regulations and in OMB Circular A-133 (compliance supplement dated March 2000). If you are unfamiliar with the requirements, your auditor should be able to provide a briefing for you and your staff.

8. Very small Housing Authorities are the exception to this requirement; however, an annual audit is recommended as a good business practice for all Housing Authorities.



**Warning Signs**

- The audit shows one or more "findings" or the management letter has significant recommendations.
- Audits are being completed late.

**Solutions**

- Audit findings are a very serious matter and require immediate high level attention. Findings are not made lightly and must be addressed at the earliest possible time. Failure to do this can have serious consequences for the Housing Authority.
- Since audits are done by independent entities outside of the Housing Authority, it is necessary to make certain that the due date for completion of the audit is clearly spelled out in the contract with the auditor. The auditor should be held accountable for completing this very important process on time.

**General Ledger**

The general ledger is the most vital part of all Housing Authority records. It contains a summary of all the transactions and journal vouchers that have been prepared by the accounting staff. The general ledger should never be destroyed.

**Warning Signs**

- The general ledger does not balance.
- Financial reports are late.

**Solutions**

- Errors may have been made in entries to the general ledger and, if so, must be corrected. If the system is automated, software or computer problems may exist. If so, require the software vendor to make corrections to the software.
- A review of the reasons for late reports will show if this is a staff problem, in which case staff needs to be held accountable for due dates. There may also be a need for additional training.

**Procurement**

Both HUD and state regulations must be taken into consideration before purchasing any item or before signing any contract. Executive Directors are the contracting officers of the Authority and are responsible to insure that federal, state and local laws and regulations are followed (even though elements of this responsibility may have been delegated to other staff).

Each Housing Authority must have a procurement policy that conforms to the HUD Guide Book 7460.8. The procurement policy should have the following components:

- **Organization and Authority** — The Housing Authority must stipulate in its policy the lines of authority to approve any purchase made.
- **Petty Cash** — There should be a section that describes the use of petty cash and the requirements for documentation and the sequence of approval for the expenditure.
- **Purchase Orders** — This section must state the requirements regarding the use of purchase orders to complete transactions. A range of dollar limits should be applied to this section.
- **Informal purchases** — These involve the procurement of goods, equipment, services and supplies that cost less than the threshold set by the Authority in the procurement policy. HUD regulations, state law or the commissioners may set this threshold. The Housing Authority must also have an informal purchase policy that states the requirements for requesting bids for any purchase, including the documentation of steps taken to show compliance with the policy.
- **Formal purchases** — This section of the policy explains the procedure that will be followed to authorize purchases over the threshold as stated in the policy. This procedure must include a public notice requesting bids for the items needed. The Housing Authority must pay special attention regarding the specifics of the item being requested. State law and HUD regulations explain the steps and the timing required for compliance with the law and regulation.
- **Professional services** — Services such as architecture, engineering, auditing and consulting should be subject to competitive bidding and negotiation to insure that the Authority receives the best service for the least cost.



- **Contracts in amounts over the threshold** — All purchases in excess of the threshold are subject to public bidding procedures as required by federal and state laws and regulations in effect at the time of the purchase. The contracting officer is responsible to insure compliance with all specifications, internal procedures and federal and state laws and regulations.
- **Ethics and independence** — The policy must include a statement about ethics and independent transactions to the effect that no related parties are involved with the procurement. This requirement prevents conflicts of interest for Housing Authority staff and commissioners.
- Review audit findings if any and make appropriate corrections.
- Conduct informal, internal reviews of procurement practices to insure that policies and procedures are understood and followed.

#### GASB/GAAP

The Governmental Accounting Standards Board (GASB) is relatively new to Housing Authorities, but is something with which accounting and finance staff should be familiar. The GAAP method of accounting is based on the premise that the accounting records are set up in such a manner that revenues and expenses are accounted for and reported in the accounting period when they were earned. The following example demonstrates how this principle would work.

#### Warning Signs

- Lack of trained personnel.
- Audit findings in this area.
- The purchasing officer is filling out purchase orders after the item is already received.
- Budget line items are overspent.
- Retroactive purchase orders are a violation of procurement procedures. This practice violates internal control procedures. More serious problems may occur later if this is allowed to continue. Staff should be held accountable for following proper procedures after they are made aware of what the procedures are and the reasons for their existence.
- There is a lack of certainty that the funds are available in budget line items before expenditures are approved. The earlier warning about failure to use proper procurement procedures could result in overspending. Regular review of budget expenditure reports can control this problem. If the expenditure is deemed important enough, a budget revision may be necessary assuming that the proper approvals can be obtained.
- No regular, independent reviews of procurement.

A telephone bill is received on February 2. The bill is for phone usage from January 1 to January 31. The phone bill is paid by a check written to the telephone company on February 15. Most people would consider that payment as an expense for the month of February, the month in which it was paid. Under GAAP accounting (the matching of revenue and expenses in the period they were earned or expended), the accounting recording for this transaction will be a January expense because that is when the telephone service was used.

This method is called the full accrual of accounting. Simply put this means that at the end of each accounting period (before financial statements are prepared), the accounting staff must review all the transactions in the month after the accounting period ends and verify that there was a matching of revenues and expenses for the period.

The other accounting transaction that is new to Housing Authorities is depreciation. In the past when an Authority purchased a capital asset (see the inventory section of this chapter), it was expensed in total at the end of the year. Since a capital asset will last more than one year, the matching of revenue and expense has not been met as required by GAAP. Let us look at an example:

#### Solutions

- Constantly review policies and procedures and update as appropriate.
- Train staff.

Assume that a Housing Authority purchased a maintenance truck. It is estimated that the truck will be used five years. The prior accounting method expensed the cost of that truck in the year it was purchased. Under the GAAP accounting, we now have to expense the cost of the truck over a five-year

period to enable us to match the revenue and expense theory of GAAP.

With very few exceptions, such as land, all capital assets will be subject to depreciation.

For further information on this topic, the Housing Authority may refer to the accounting guides listed in this chapter under the accounting system section.

### Warning Signs

- Reports to HUD are in error and GAAP criteria are not being used.

### Solutions

- First, verify that your accounting system has been changed to GAAP accounting. Next, trace the error amounts to the general ledger since it could be the general ledger that may need corrections. Train staff to insure that they know how to use these reports. The accounting system is essential to insure the proper figures are reported.

### Insurance

Housing Authorities are required by the annual or consolidated annual contributions contract to protect the assets of the Housing Authority and the interests of the federal government by providing insurance from one or more insurance carriers. HUD stipulates that the procurement of insurance must be on a specification and bid or proposal process. Insurance requirements by HUD are set forth in the HUD Guidebook 7401.5. The guidebook is available over the Internet at <http://www.hud.gov>, using the library section of the Web site. There are discussions about the various types of insurance available and the fact that some, such as state funds or Housing Authority pool insurance may be exempt from some of the formal request for proposal requirements.

Housing Authorities must pay careful attention to the policies and coverage. Insurance is not a simple matter that can always be understood by the inexperienced. The Housing Authority may believe that coverage is adequate when it is not. A good example is the public liability coverage that may or may not cover employee lawsuits. It is very important for the Housing Authority to be covered for all possible losses to protect its assets. Professional expertise should be sought to guarantee that the proper types and coverage are in place.

**“We hired a local insurance agency to act as a broker of record for our health insurance. This is at no cost to the Housing Authority. They handle our insurance claim disputes and we benefit by being part of a large group, which entitles us to lower group rates on the insurance premiums.”**

ONEIDA, NEW YORK

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### Warning Signs

- Too many liability claims are being received.
- Work site accidents are increasing.
- Large increases are being received in insurance policy premiums.
- Coverage is incomplete or certain areas of liability are not covered, e.g. lead based paint.

### Solutions

- Excessive liability claims may indicate that safety and risk management procedures need to be reviewed and addressed. Insurance carriers will be especially receptive to helping the Housing Authority review their risk management practices since liability claims hit the carrier in the bottom line (and ultimately the Housing Authority in increased premiums).
- An increase in on-the-job accidents often can be addressed by instituting a strong safety policy and safety committee. The policy and safety committees should be familiar with all employees and work sites.
- Large increases in premiums may be connected to the number of claims you have had in the past three to five years or they may be a function of the marketplace. The Housing Authority should issue a request for proposals and verify the market. The services of an insurance broker may be needed to assist with this specialized function.

- Have coverage reviewed by an experienced insurance professional. Seek to obtain coverage for gaps in coverage, such as lead based paint liability, if feasible.

### Investments

HUD has guidelines that must be followed along with any state regulations that require public funds be invested in a certain manner. Be aware that state regulations may override the HUD investment policies. The Housing Authority must follow the most stringent of the federal or state laws. The Housing Authority must have a written investment policy and procedure that include as a minimum the following:

- Intent of the authority investment policy
- Scope of what funds the policy covers
- The objectives of the following categories:
  - Safety of the entire principal
  - Liquidity of the investments
  - Return or yield on the principal amount
  - Limitations on the investment type and amount for each
  - Administrative costs to invest with a particular type of investment
  - Collateralization of the investment amount
  - Diversification of investments
  - Maximum length of time of the investment
  - Suitable investments, listed, usually government-backed investments or government-insured
  - Definition of the prudent investor
  - Delegation of authority for investments, if not the executive director
  - Statements regarding ethics and conflicts of interest
  - Internal control policy over investments to protect them
  - Performance standards and report requirements

Many Housing Authorities have few funds available for investment. However, the investment policy is a must to protect the Housing Authority and staff responsible for the investment of funds regardless of the amount invested. It should be noted that placement of funds in a simple checking or savings account requires an investment policy approved by the Board of Commissioners.

In addition to HUD requirements for investments there are state requirements that must be met and should be addressed in the investment policy. If you are not aware of your state requirements you should call the treasurer's office or the comptroller's office of your state.

HUD has specific cash management guidelines and your State may have special laws regarding cash management and investments. To insure compliance, you should ask your auditor or fee accountant for references for the laws and regulations.

### Warning Signs

- Your fee accountant (if you have one) is not well-qualified.
- Budgeted investment income is not being realized.
- The Housing Authority investment policy does not cover some key areas such as listed above and/or does not reflect all requirements from both federal and state laws. Further it is not periodically reviewed and revised to maintain compliance with mandated changes.
- The Housing Authority needs funds but cannot transfer them from investments.
- The Housing Authority invests in a banking institution without a depository agreement as approved by HUD. This agreement is a standard HUD form that must be signed by the financial institution and approved by HUD.
- Audit findings are received in this area.

### Solutions

- Thoroughly review the qualifications of a fee accountant before hiring.
- Develop a sound investment policy with the guidance of professionals skilled in this area which provides guidance to Housing Authority staff in the investment of Housing Authority funds.
- Unavailability of investment funds may be the result of investments having too long a maturity date. At the next maturity date, modify the length of time the funds are invested.



- The Housing Authority staff responsible for making investments must understand and follow state Housing Authority laws and other state laws that regulate the investment of public funds.

### Financial Indicators under PHAS

The PHRA enables Housing Authorities to increase revenues without affecting the subsidy computation. Other income from business transactions and increasing total rental income are examples of these exemptions that help Housing Authorities when computing the financial indicators as explained below.

PHAS Indicator #2, Financial Condition contains six sub-indicators. These are

- Current ratio
- Months expendable funds
- Occupancy loss
- Residents receivables outstanding
- Expense management
- Net income

The scores in these six categories are judged relative to the size of the Housing Authority being rated. Further information about the Financial Indicator may be found in the December 21, 2000 Federal Register.

### Warning Signs

- The following benchmarks apply to small agencies (50 to 249 units) and reflect those threshold values that yield acceptable scores on PHAS points available for each. These are current as of December 21, 2000, and are presented to illustrate how a PHA could use them as early indications of oncoming problems in the areas shown:

Measure	Value
Current Ratio	Less than 2.8
# Months Expendable	Less than 4.6 months
	Fund Balance
Occupancy Loss	Greater than 3.0 percent

### Solutions

- When these thresholds are reached for one or more of the sub-indicators, a thorough analysis of the reasons should be undertaken and appropriate corrective action begun to reverse the trend.

**Where can you find additional help in this area?**

- Web site for the American Institute of Certified Public Accountants ([www.aicpa.org](http://www.aicpa.org)).
- HUD Guidebook 7475.1 REV.
- HUD Public Housing Authorities GAAP Conversion Guide.
- HUD Financial Indicators and Methodology & Analysis Guide.
- HUD Guidelines for Public Housing Authorities and Independent Auditors.
- Website for GASB ([www.GASB.org](http://www.GASB.org)).
- Federal Register, U.S. Department of Housing and Urban Development, Financial Reporting Standards for HUD Housing Programs; Final Rule, September 1, 1998.
- Notice PIH 98-40 Revised Form HUD — 52599, Statement of Operating Receipts and Expenditures, and availability of electronic transmission. Reference Low-Rent Technical Accounting Guidebook, 7510.1.
- HUD Guidebook 7460.8 Procurement Policies.
- HUD Publication OMB Circular A-133 and amendments (available at the REAC website ([www.hud.gov/reac](http://www.hud.gov/reac))).
- Public Housing Assessment System Financial Condition Scoring Process; Notice June 28, 2000 Federal Register Vol. 65, Vol. 125.
- HUD's Insurance Guidebook 7401.5.

**CHAPTER 6:**

## Information Technology

**Important Functional Areas for Housing Authorities to Address\***

Functional Areas	Warning Sign	Solution
Management Information Services	MIS staff are unqualified or inadequately trained.	Establish minimum qualifications for each MIS position; bring the software provider in for annual training for all new staff; provide refresher training at least every three years.
Management Information Services	The Housing Authority does not have basic computer hardware or software (office/business software and internet access).	Review budget and make revisions that will permit purchase of computer hardware and software. Obtain training for staff in its use.
Management Information Services	MIS staff do not participate in Housing Authority administration software user groups.	Establish contacts with user groups and use as a mentoring and training tool.
HUD-related computer requirements	The Housing Authority has trouble fulfilling HUD's requirements for electronic reporting.	Obtain requirements and acquire the necessary computer hardware and software to comply. Train staff in the use of equipment to comply with HUD requirements.

\* These "warning signs" represent only a sample of those discussed in the following text.



**LESSON LEARNED:**

**Many Housing Authorities have resisted the introduction of Information Technology into their businesses to their detriment; computerization is a trend that should be embraced, not put off.**

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The area of information technology (IT), also known as management information services (MIS), is a critical area upon which the success or failure of a Housing Authority can rest. The size of a Housing Authority and the number of programs and complexity of those programs will dictate the degree to which information technology will be required or possible. At the minimum, even the smallest Housing Authority should have the following:

- A desktop or laptop computer with sufficient capacity for the operations for which it will be used and with related equipment such as a printer and scanner
- Commonly used office/business software adequate to the data to be processed
- Access to the Internet and HUD web sites for submitting reports and downloading essential regulations and guidance
- Staff who are competent in the use of the above equipment, software, and/or systems either



through existing expertise or training to acquire such expertise.

If the executive director does not have the expertise to select the proper hardware, software, etc. for the Housing Authority, professional advice and expertise should be sought to insure that the selection is the proper fit with the Housing Authority's needs and resources.

Executive directors and boards of commissioners need to understand that a good, reliable computer system will provide the breadth of information required to make sound management decisions. Strict policies concerning data integrity and the prohibition of "off-line" systems as feeder information for management reports should be adopted and enforced. Regular review of basic management reports will identify trouble spots before a real crisis emerges.

Most Housing Authorities use a system that is really a combination of various tools, either related or unrelated, to fulfill their management responsibilities. There is a minimum of two such tools, public housing administration software and office automation software. Housing Authority personnel need to understand their management system; what it will do for them and what it can't.

Increasing emphasis is being placed on automated systems and reporting mechanisms. More and more these mechanisms are web-based, requiring Housing Authority personnel to be "PC savvy." Housing Authority personnel, at a minimum, need to have a basic knowledge of office automation software and internet browsing. High performing Housing Authorities are typically characterized by the importance that they have placed on their management information systems. This importance is demonstrated by the following actions:

- MIS is headed up by a professional data administrator (if size permits it)
- MIS is placed on the same level as other major departments
- MIS is held out as the only source of management data
- MIS personnel training is kept current
- Housing administration software is kept current
- Hardware is updated to support housing administration software as required
- On-going system training for Housing Authority staff
- Adequate space for the MIS function commensurate with tasking
- Adequate staffing of the MIS function commensurate with tasking



## Types of Computer Systems

There are three major operating systems in use today throughout the industry. These systems are UNIX, Novell and Windows. Selection of the proper operating system for a particular application can be a complex decision. Housing Authorities that do not have qualified personnel on staff to make these evaluations and decisions should consider enlisting the assistance of a professional contractor qualified in this area.

## Warning Signs

- Unqualified or inadequately trained MIS staff
- Majority of reports are generated via spreadsheets or other "off-line" systems
- Out-of-date Housing Authority administration software
- Large staff turnover since system implementation with little or no formal training for new staff about the system
- Staff uncertainty about system capabilities
- No formal training policies related to MIS
- No ownership of the system
- Lack of formal leadership
- No defined tasking related to MIS
- Reactive work practices
- No mission guidelines or policies for MIS
- MIS is buried within the finance division
- MIS spaces are inadequate for its assigned tasking
- Lack of participation in Housing Authority Administration software user group

## Solutions

- Identify mission-critical MIS functions
- Develop a planned replacement program for hardware and software
- Establish minimum qualifications for each position in the MIS department
- Establish MIS as its own department, (HA size permitting) reporting directly to the executive director
- Establish personalized training programs for MIS staff
- Require all management reports to be generated from the Housing Authority administration software
- Hold department directors accountable for performance as reported by the Housing Authority administration software
- Develop proactive, customer-oriented work practices
- Hire MIS staff with the appropriate background required by your software
- Establish a MIS mission statement
- Upgrade Housing Authority administration software within one year of changes in HUD regulations

**“I now know how many hours have been accounted for on work orders and how many hours each staff member has spent on work orders. I know, specifically, what has been taken out of inventory and where parts have been used.”**

HOUSING AUTHORITY OF THE CITY OF SANTA  
BARBARA, CALIFORNIA



- Re-evaluate space allocation and assign MIS sufficient space to fulfill its mission
- Bring the software vendor in for annual software training for all new staff
- Provide refresher training every three years for the staff, to reacquaint everyone with software capabilities
- Use software user groups as a mentoring tool for MIS staff
- Partner with higher performing Housing Authorities that use your software for MIS skills development
- Recognize that MIS support is not cheap and budget for it

**Where can you find help in this area?**

- If you are seeking professional assistance in acquiring appropriate computer hardware and software for your Housing Authority, you may want to consider contracting with an IT expert who is not involved in the sale of such equipment. Such an expert can assist in assessing your Housing Authority's needs and matching them with hardware and software that is available in the marketplace.
- You may also wish to consider partnering with other Housing Authorities in your immediate geographical area to share hardware and software. The grouping of two or more Housing Authorities in a consortium for the purpose of meeting their IT requirements can be very effective.

**CHAPTER 7:**

## Security

**Important Functional Areas for Housing Authorities to Address\***

<b>Functional Areas</b>	<b>Warning Sign</b>	<b>Solution</b>
Safety and Security	Vandalism and graffiti are prevalent and/or increasing.	Repair damage and paint out graffiti promptly (within 24 hours if not sooner); encourage residents to report all such incidents.
Safety and Security	Deferred maintenance is building up and a development's appearance is declining.	Assess the causes for the decline and establish a maintenance program to address the needs so that the "broken windows" syndrome will not cause conditions to worsen.
Criminal Activity	The incidence of crime in a development is high and/or growing.	Seek to curb criminal activity by various methods of intervention such as increased police presence and block watch program; identify root causes of crime and develop programs to address those in addition to symptoms.
Housing Authority/Law Enforcement relationship	There is no cooperative working relationship between the Housing Authority and local law enforcement.	Meet with local law enforcement officials to pursue initiatives that have a common goal; work to develop sound relationships at all levels.

\* These "warning signs" represent only a sample of those discussed in the following text.

**LESSON LEARNED:****A lack of security can overturn all of the other good works of a Housing Authority.**

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**V**iolence, drug-related activities and crime, in general, adversely affect many communities. Some public housing residents live in a constant state of fear and the consequences are seen in high turnover, loss of rental income and huge repair costs.<sup>9</sup> Crime is a serious problem and one that must be addressed for the security of residents who live there.

It does not matter if the crime arises out of the public housing community or that it simply affects a public housing community because that community is a part of a larger neighborhood rife with criminal activity. Regardless of the reasons or the source of the problem, it must be addressed if the mission and vision of the Housing Authority are to be achieved.

**Warning Signs**

In 1982, George L. Kelling and James Q. Wilson published an article in the *Atlantic* that described their findings from the "Newark Foot Patrol Experiment" and other research involving the effects of crime on neighborhoods. This article came to be popularly known as "Broken Windows" and specifically addressed the significance of "order-maintenance" activities by the police. Basically, the analogy of a broken window is used to describe the relationship between crime, disorder and neighborhood deterioration:

**"...if a window in a building is broken and is left unrepaired, all the rest of the windows will soon be broken.... One unrepaired window is a signal that no one cares, and so breaking more windows costs nothing."**

Wilson and Kelling went on to elaborate, "...serious street crime flourishes in areas in which disorderly behavior goes unchecked."<sup>10</sup>

Keeping this premise in mind, it is relatively simple to look at a public housing community (or any community for that matter) and see if there are "broken windows" (warning signs that there are crime and public safety issues). Some of these are:

- **Deferred and/or neglected maintenance.** Trash and litter, poorly stored garbage, peeling paint, broken doors and windows, and uncut yards are common indicators that all is not well.
- **Vandalism and graffiti.** If vandals with pellet guns can shoot out windows at will, who really "owns" the property? If gangs can mark the premises with their "tagging" and not have it removed, their "ownership" is tacitly approved. One "tag" leads to another and then another as rival groups vie for superiority.
- **Abandoned vehicles.** Whether abandoned vehicles are cars or trucks brought in by residents and left on the streets or in parking areas or whether they are stolen, stripped, and abandoned by non-residents makes little difference. If left as they sit, they become eyesores, hazards and magnets for illegal activity.
- **Illegal drug activity.** This type of activity may occur in any community. A seemingly well-maintained property could have illegal drug crime and related activities. Robberies, burglaries, assaults and shootings will not be far behind since drug dealers and users seldom exhibit the kind of law-abiding, mature behavior that most people expect. While a drug problem in a neighborhood may not necessarily result from a "broken windows" type of environment, it can and it almost certainly will create such an environment with deteriorating living conditions. Planning is required on an ongoing basis to eliminate the influence of drugs on a community; one-time efforts may succeed in the short term but need to be followed with longer-term strategies to prevent the return of the problem once it is resolved.
- **Violent crime.** Assaults, burglaries, robberies, rapes and homicides can also occur in any

9. Together We Can Meet the Challenge: Law Enforcement Strategies and Practices to Eliminate Drugs in Public Housing, International Association of Chiefs of Police & U.S. Department of Housing & Urban Development, March 1994.

10. Fixing Broken Windows, George L. Kelling & Catherine M. Coles, Touchstone Books (Simon & Schuster), New York, NY, 1997.

neighborhood. An isolated incident, while cause for grave concern, does not represent the same problem that a pattern of such incidents in a given community would. These types of problems are almost always associated with other types of criminal activity and social dysfunction.

- Domestic violence. This type of crime is one that does not have the same kind of overt warning signs that graffiti, vandalism or drug problems exhibit. It is nevertheless one of the most serious crimes because it is not as obvious, nor as easily reported. Special training and techniques may be necessary to establish the incidence of this type of crime and to address it. Domestic violence occurs with alarming frequency and Housing Authorities need to be alert to the indicators.

### Solutions

To change a public housing community or a Housing Authority from "crime-prone" to "crime-preventive" will require a series of coordinated actions. The number and types of steps will vary with the severity of the problem and specific needs of each locality, but in general the following actions will be used:

- Work with local law enforcement to remove the worst manifestations of criminal activity. Tolerating blatant criminal activity is the wrong thing to do. Put a stop to it and set new standards and expectations. Some jurisdictions have effectively used criminal trespass laws to provide "probable cause" to the police and to dislocate the problems. Never forget, however, that this is not the long-term solution. The executive director needs to take responsibility for setting the tone of a strong working relationship with the chief of police or sheriff. Management staff should have similar relationships with local patrol officers.
- Review your screening and evictions policies and revise as needed. Screening of new applicants and eviction of offenders is critical in maintaining a desirable living environment.
- Effective eviction of undesirable residents results from more than just the development of a good policy. It must involve the training of management personnel to effectively build a case for and pursuit of evictions of offenders as well as how to work cooperatively with police and judicial resources. We repeat that working with the judicial system can be most helpful in this regard.
- Take care of the Housing Authority's business and duty to its residents. Many landlords have been successfully sued when they have shown negligence or failed to perform what lawyers call their "duty." A Housing Authority or any other landlord has a duty to provide a reasonably safe environment for residents. For example, if you fail to change the locks before a new resident moves in and the old resident comes back and robs the new resident, gaining access with the old key, it may be said that you failed in a "duty" normally expected of you as a landlord. This failure could prove costly to you and your Housing Authority. Providing a security patrol or security personnel might be appropriately expected in some settings. If your property is suffering from the "broken windows syndrome," taking care of business may include painting out graffiti within 24 hours, making repairs promptly and making sure that abandoned vehicles are removed expeditiously.
- Beyond just maintaining the property and doing your duty as a landlord, consider whether the physical design of your community lends itself to criminal activity or to safe, civil, crime-free living. Many public housing communities were built decades ago before current social conditions existed. What worked then may be creating and fostering intolerable conditions now. Simple "hardening" work on units or CPTED (crime prevention through environmental design) may reduce the incidence of crime. Similarly, changes that limit or control access by unauthorized persons and that increase visibility may prove fruitful. These changes need not always be expensive to be effective. If, however, modernization or capital fund dollars are available and major work is planned, be sure that the plans include the expertise of professionals and residents so that criminal activity is discouraged by design features rather than encouraged.
- Begin an attack on the root causes of criminal activity. For criminal activity to exist, it must be tolerated. Work to change the environment that tolerates it. This means empowering and motivating community residents to take positive action against criminal activity. Creating safe public housing communities is a job that no one person or organization can accomplish alone. Partnerships are necessary. Fostering resident

involvement is as critical here as anywhere. A variety of methods including block watches, resident patrols, hiring residents as security personnel and training residents on what public safety means and why they should expect it can pay big dividends. Commitment, organization and innovation are required. Getting residents and even non-public housing neighbors involved is important. Service providers can be a significant resource since their goals are often

similar to those of the Housing Authority and its residents. Your local law enforcement agency should be your primary partner throughout the effort. A community-oriented problem-solving approach can be very successful.

- Review lease termination and eviction policies. Do they need to be tightened or revised in any way? HUD's "One Strike, You're Out" Guidance may be helpful in this area.

#### Where can you find help in this area?

- The first place to look for help with crime should always be your local law enforcement agency. They may not have all the resources or answers but they are without question the place to start. You will not solve a community crime problem without them.
- Community-based organizations such as crime prevention councils and community councils may provide connections and volunteer resources since their goals are the same as yours—crime reduction and prevention.
- The Department of Housing & Urban Development provides considerable resource materials and funding (Drug Elimination Grants) for Housing Authorities with crime problems. The Office of the Inspector General also has resources that may be available to Housing Authorities and/or their local law enforcement counterparts. The local field office personnel can provide further advice about how to seek out and access these resources.
- Together We Can Meet the Challenge: Law Enforcement Strategies and Practices to Eliminate Drugs in Public Housing, International Association of Chiefs of Police & U.S. Department of Housing & Urban Development, March, 1994.
- Fixing Broken Windows, George L. Kelling & Catherine M. Coles, Touchstone Books (Simon & Schuster), New York, NY, 1997.
- "One Strike and You're Out," Policy in Public Housing, March 1996.



**CHAPTER 8:**

## Resident Services

**Important Functional Areas for Housing Authorities to Address\***

<b>Functional Areas</b>	<b>Warning Sign</b>	<b>Solution</b>
Resident Services	There are few if any resident services programs designed to help residents with routine needs and self-sufficiency.	Determine needs and seek means by which various programs may be introduced to the development and residents.
Resident Services	There are no cooperation agreements with service providers and/or no organized effort to bring in service providers.	Seek out specialized services as may be needed and encourage those providers to bring services to public housing communities; enter into cooperation agreements to solidify the arrangements.
Resident Participation	Residents have no effective involvement in the affairs of the Housing Authority and are not afforded a realistic opportunity to participate in decision-making to any extent.	PHRA requires resident participation via resident membership on the Board and the Resident Advisory Board. Seek issues that residents are concerned about and foster their input and participation; give value to resident input; and include residents in budget and capital planning processes.
Standards and Expectations	The Housing Authority does not set a positive example for residents, yet expects residents to "do as we say not as we do."	Examine all aspects of the Housing Authority's performance standards and expectations for staff and ensure they are at least equal to, if not higher, than those for residents; "walk your talk."

\* These "warning signs" represent only a sample of those discussed in the following text.

**LESSON LEARNED:**

**Serving residents is the reason we are in business, and with respect to the provision of supportive services, resident services are more than just providing categorical services. Rather than trying to do it all yourself, let others help you.**

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**I**t must constantly be kept in mind that the reason Housing Authorities do what they do is to provide decent, safe, and sanitary housing that is in good repair for residents. To that end, we must also keep in mind that residents are our biggest asset. The bricks and mortar are meaningless unless they are viewed as the way to help residents. Conversely, residents can help Housing Authorities do their jobs better.

The most important thing a Housing Authority



can do to promote resident organization and involvement is to empower residents. If residents perceive that their participation is not wanted or valued, they probably will not bother. Engage them! If conditions are bad, they may organize and advocate for what they want. Reach out and involve them! The chances are better for effective resident participation when Housing Authority policy supports resident involvement and when the Housing Authority's actions demonstrate that it is committed to that policy. A sincere commitment

to having residents involved must be communicated and followed up with a real sharing of power and decision-making. Allowing resident organizations to assist in important areas such as development of the budget and capital fund priorities is a constructive demonstration of the commitment. PHRA goes a long way in assuring resident involvement at all levels by requiring that there be at least one recipient of assistance on the Board of Commissioners and that Resident Advisory Boards are created. There are some exceptions to this requirement so you should consult HUD guidelines for more information.

The concept of resident services is often viewed as simply the provision of certain services, such as recreation or day care, to residents. In fact, as demonstrated by the categories addressed in the PHAS Resident Survey (maintenance, communication, safety, programmatic services, and neighborhood), resident services are much broader. When viewed in this context, resident services including the provision of affordable housing, are the major focus of Housing Authorities' missions. This broader view is how resident services will be addressed in this Chapter.

Programmatic services are difficult to describe accurately due to the wide variation between and among Housing Authorities. Given the fact, what can be said about lessons learned? First, direct service delivery programs are expensive. A Housing Authority that chooses to have its own in-house programs will be using dollars normally reserved for the general operations of the Housing Authority, unless the programs are funded by a specific grant. While this is a policy direction that the Executive Director and Board of Commissioners may choose, it is a tough one considering funding shortfalls.

A generally preferred alternative to providing direct services "in-house" is to network with agencies that provide similar services to low-income families not living in public housing. Such agencies could include a State department of

**Housing notes:  
sionals need to have  
expectations of their  
clients and they need  
to believe that self-  
sufficiency programs  
are in the clients'  
best interest.**

**ALAMEDA COUNTY,  
CALIFORNIA**

human services, Boys and Girls clubs, public libraries, or other United Way-funded organizations. Local school districts and community colleges will often provide onsite GED, English as a second language, and other adult/continuing education programs. With this type of service delivery, the Housing Authority's role can be that of a catalyst and its share of the "deal" is primarily to provide the space for programs and activities.

In fact, PHRA requires Housing Authorities to make their best efforts to enter into cooperative agreements with local welfare agencies and other local support organizations. In some instances, states have unspent TANF monies that may be accessible to programs for public housing residents. Such agreements will facilitate the exchange of information necessary to carry out PHRA, target resources, and thus expand the choices of self-sufficiency programs available to public housing residents. Through this type of cooperative agreement, Housing Authorities may be able to access substantial funding to help families toward self-sufficiency. HUD has issued a model agreement to be used in these efforts.

Day-care centers are an especially important component of program services. Housing Authorities should consider providing the physical space for day-care facilities, but look to existing successful day-care providers to expand their operations in public housing communities. Care should be exercised in writing the lease agreement under which the day-care operator uses Housing Authority premises. Licensing, liability insurance, and priority for residents are just three factors that ought to be fully explored and addressed in the lease.

Another day-care option is that of permitting residents to operate small centers out of their homes. Expectations should be set forth clearly for the number of children that may be taken in and the kinds of alterations allowed to be made to the premises. Make sure that all licensing requirements are met.

Another opportunity for Housing Authorities to collaborate with other programs comes from the Workforce Investment Act that was passed by Congress about the same time as the PHRA. This legislation encourages the development of One-Stop Centers where self-sufficiency and employment services can be accessed. This opportunity is being utilized by some Housing Authorities. Further information can be obtained from the PIH web site.

In summary, it may fit your Housing Authority's needs to encourage organizations that already have as their mission the provision of the

special programs that are needed in your communities. The building of these types of partnerships can be especially effective and fruitful. But, a word of caution is also appropriate.

Programs that are tied to one-time short-term grants may create false expectations and then vanish once the grant runs out. There can be tremendous pressure on a Housing Authority to provide ongoing funding to a successful program whose original grant has expired. If the Housing Authority decides to fund in-house programs, analyze the impact, both from the financial perspective and the amount of staff time required to operate the program(s). Insist that all programs, regardless of who is paying for them, have clearly established criteria that are measurable. If, for example, a program is intended to reduce crime, agree at the beginning how you will know if crime has been reduced. If the program is to help people find jobs and become employed, how many actually find jobs? This will also permit cost information on a per capita basis. This "results" approach of administration of resident services programs will allow the Housing Authority to make strategic decisions about which programs to continue.

Are services to residents limited only to programmatic types of "services?" Our position, as indicated earlier, is that the concept of "services" goes beyond the provision of housing and



**"In small rural communities, it is vital to stay in touch with other agencies and services that could assist your residents. In our community, a couple of residents started an Eldercare Coalition. It has expanded to include every public agency in the community in addition to service organizations and businesses. They meet once a month and try to work out a plan for the needs of the elderly in our community."**

**MORRIS, MINNESOTA**

programs. "Services" ought to broadly encompass everything that a Housing Authority does for its "customers." This concept has as its basis the promotion of self-improvement and empowerment. Seen in this context, "resident services" are all-inclusive.

**Standards and Expectations.** Every Housing Authority can provide a vital service to residents often overlooked. This is the service of providing a positive model to both adults and children living in public housing. The Housing Authority is the primary organizational entity with which residents have contact on a day-to-day basis, and it has a unique opportunity to set proper examples and expectations. This is best described by the phrase "walk your talk." The "truth" of what the Housing Authority really expects will be found in its own performance.

Consider the following to be sure the Housing Authority is providing the proper climate:

- **Office and maintenance areas:** All areas, even maintenance shops that are typically off limits to residents, should be clean and orderly. Maintain the grounds and buildings to high standards. An eviction to remove a resident whose unit is dirty and full of trash is hard to justify if the maintenance yard or grounds are dirty and full of trash.
- **Dress:** Both office and maintenance personnel need to be neatly and professionally dressed (taking into consideration requirements of their individual work). Housing Authority employees need to, within reason, "dress to impress."
- **Behavior:** High standards need to be set for all interactions (staff-to-residents, staff-to-staff, staff-to-general public, etc). This is very important and an area that all employees need to buy into. Mutual respect should be the image that is projected. If staff do not treat residents with respect and consideration, residents will mirror that behavior.

**"By using an existing physical facility, the housing authority and other interested organizations provided learning opportunities for residents in their own neighborhoods and improved the lives of local housing authority residents and their children."**

**DENVER, COLORADO**

How does a Housing Authority create the right image? It must start at the very top with the board of commissioners and executive director. The mission statement, and all that flows from it, is the source. There should be a reference in that statement to "treating everyone with dignity and respect." This commitment can easily extend to every employee because every employee is directly responsible for showing respect and treating people with dignity. It creates the right environment for helping people feel good about themselves and making a difference in what they do.

**The Resident Assessment.** The resident assessment under PHAS is an integral part of "resident services." No matter how well an organization may be perceived by itself or by outside sources, it can never really be "excellent" if its clientele is dissatisfied.

The best way to determine levels of satisfaction is to conduct an annual survey of 100 percent of residents, in addition to the HUD survey. Housing Authorities ought not to rely solely on the results of the HUD survey as the final word on what residents think about a Housing Authority and its service delivery because it only represents a sample. More specific, detailed information may be needed. It may also be that the Housing Authority manages a variety of rental units that do not fall under HUD jurisdiction and for which customer feedback would also be valuable. All of the Housing Authority's customers should be heard. If it is not feasible to survey 100 percent of residents every year, the Housing Authority may want to consider doing a portion of its residents in specific communities over a three-year cycle. In this way, detailed information may be obtained without overwhelming staff resources.

The survey could be done "in house" with Housing Authority staff. A number of Housing Authorities have downloaded the survey form from the Resident Assessment Sub-System (RASS) and have used it. A third party (independent) might also be engaged to collect information through surveys, focus groups, interviews, and similar methods. The information should be analyzed and considered in conjunction with the Housing Authority's goals and objectives. It would be used to either validate achievements or to demonstrate areas in which expectations have not been met. A more effective follow-up plan can be based on this more comprehensive survey.

Residents should be involved in a meaningful way. It is better to work with an empowered group of residents (and employees for that matter) than it is to ignore or resist them. The feedback from a positively motivated group of residents can be a



tremendous asset. If such information is used constructively, it can be very effective in guiding a Housing Authority in mid-course corrections toward its goals. Having them review the results and participate in the decision making process relative to the follow-up plan is a good start.

**Resident Associations.** The absence of active and effective resident associations is common throughout public housing. Housing Authorities that are fortunate enough to have strong resident associations and treat them as real partners, are clearly ahead of the game. Under PHRA, Housing Authorities must insure that residents have the opportunity to participate in the PHA Plan (5-Year Plan and Annual Plan) through Resident Advisory Boards. This is an excellent way in which to build resident expertise and participation. 24 CFR Part 964 (Tenant Participation and Tenant Opportunities in Public Housing) has been developed specifically to recognize the importance of resident involvement in creating a positive living environment.

Why is it sometimes so difficult to have effective resident organizations? What can be done to change this situation? There is no one simple reason why residents choose not to get involved. Sometimes the reasons are not always negative. There may be no issues for residents because the Housing Authority is doing a good job. Residents may not be motivated to attend meetings that take away from their time to address personal and family needs. On the other hand, there may be problems, but the consensus among residents is that they are powerless and cannot change anything. In another setting, residents may be active and involved until the conditions that motivate them are resolved and then participation wanes.

The Housing Authority must, in spite of a commitment to the resident association, maintain a certain distance. If residents feel that the Housing Authority is too "close" to the resident organization and not looking out for their best interests, the credibility of the association will suffer. It must be remembered that it is the residents' association and if they are to be truly empowered and equal partners, some separation must be maintained. To demonstrate the problem, in one Housing Authority that wanted to improve the resident association, a staff person was provided to act as a facilitator. The level of participation actually decreased.

### Warning Signs

- The absence of any meaningful resident participation (resident councils are nonexistent or inactive), particularly when conditions are not good and many problems exist.

**Show the residents that you can relate to their problems.**

**Include residents in major decisions.**

COOPER, TEXAS

- The Resident Advisory Board makes no important contribution to the PHA Plan.
- Largely negative feedback from the Resident Assessment Survey or a subsequent Housing Authority-sponsored customer satisfaction survey.
- Conflict and frequent confrontations with residents and/or resident associations.
- The existence of a condescending attitude on the part of the Housing Authority toward residents.
- A high level of complaints and/or activism involving resident and management issues (this may or may not be a negative indicator). Housing Authorities must take into consideration specific circumstances in their communities.
- An unwillingness on the part of the Housing Authority to share in decision-making.
- An absence of programs or effective programs that provide the services residents need to improve their lives and/or become self-sufficient.

### Solutions

- In order to build a relationship founded on trust and respect, those two principles need to be constructively communicated and demonstrated to all residents. Being straightforward and honest is the only way.
- Examine how communications are being received. If they are not accomplishing the purpose, change them. Being able to step back and let the residents participate in decisions that affect them is critical. The Housing Authority will still be the Housing Authority even if it shares some of its decision-making authority and power with residents. Dealing with empowered residents may take a lot of time, but the alternative is more costly.
- Examine the entire Authority operation to see how residents may be most effectively involved. Hire them where possible. Contract with them where possible. Ask for their advice and input as often as possible.



**Where can you find help in this area?**

- Federal Register, U.S. Department of Housing and Urban Development, Public Housing Assessment System, Resident Service and Satisfaction Scoring Process Notice — June 28, 2000.
- U.S. Department of Housing and Urban Development, Real Estate Assessment Center, Quick Reference Guide for PHA Users, Version 1, Release 3.0 Resident Satisfaction Assessment Subsystem (RASS). November 17, 1999.
- Federal Register Vol. 64, No. 203, October 21, 1999, Department of Housing and Urban Development. 24 CFR Part 964. Public Housing Agency Organization; Required Resident Membership on Board of Directors or Similar Governing Body: Final Rule.
- Federal Register Vol. 64, No. 203, October 21, 1999, Department of Housing and Urban Development. 24 CFR Part 903. Public Housing Agency Plans: Final Rule.
- ZAPP! The Lightning of Empowerment, William C. Byham, Ph.D. with Jeff Cox, The Ballentine Publishing Group, New York, 1998.
- 24 CFR Part 964, Tenant Participation and Tenant Opportunities in Public Housing.

**CHAPTER 9:**

# Capital Fund, Modernization, & Development

**Important Functional Areas for Housing Authorities to Address\***

Functional Areas	Warning Sign	Solution
Capital Fund	The Capital Fund Plan seems unconnected to the mission and goals of the Housing Authority.	Re-examine both the mission and goals and Capital Fund Plan for consistency, making changes as necessary that can be supported by the Housing Authority to HUD and the community.
Capital Fund	Funds are being obligated too slowly and are in danger of exceeding HUD guidelines.	Determine the cause for slow obligation of funds; correct problems with procurement or contractors; use new fungibility rules to extend time frames as appropriate.

\*Additional warning signs and solutions are contained within the chapter.

**Preface**

**T**his chapter is based on the view that the new Capital Fund Program (CFP) is not merely a continuation of the Comprehensive Grants Program (CGP).

The reader is asked to view Chapters 9 & 10 as inextricably linked and reflective of the fact that there are two major approaches Housing Authorities must recognize as they utilize their funds. First, they must look at ways to manage their funds efficiently for their existing, recognized needs. This involves among other actions: assessing physical needs, and obligating and expending funds most efficiently.

Second, they must recognize that the Capital Fund Program, as now structured, not only allows far greater flexibility, but also permits them to view their stock by means of the methodology used by the private sector, i.e., Asset Management. Thus, Chapter 9 focuses on the more traditional approaches and problems with the use of the funds, while Chapter 10 attempts to show

**LESSON LEARNED:****PHA Capital Programs and PHA Plan Must Be Linked.**

*Housing Authorities how to move beyond the boundaries and to focus on the concept of Asset Management.*

One of the overriding "lessons learned" is the recognition by Housing Authorities that while their ultimate goal is to serve low-income people, they must use sound business practices to achieve that goal. Part of this trend can be seen by the interest shown by Housing Authorities in the private-sector-inspired concept, "Asset Management." The strategies for doing so are based upon a site-based approach to management.

The following list shows the activities that are now eligible under the new Capital Fund Program:

- Development, Financing, and Modernization of Public Housing Projects
- Vacancy Reduction
- Deferred Maintenance and/or Obsolescence (Caution should be used as to whether this is a wise investment of capital funds.)
- Planned Code Compliance
- Management Improvements
- Demolition
- Replacement Housing
- Housing Development
- Resident Relocation
- Empowerment, Economic Self-Sufficiency and Resident Participation
- Safety and Security
- Homeownership Activities
- Collateral and Credit Enhancement

### Planning is Key

Determining which of the above strategies will be used should be developed as a part of the 5-Year Plan component of the overall PHA Plan. It begins with a mission statement, followed immediately by the identification of strategic goals that serve to support the mission statement. Many of those strategic goals have to do with capital initiatives, as shown by the following excerpts from the PHA Plan template used during the Year 2000:

☒ **PHA Goal: Expand the supply of assisted housing**

Objectives:

- ☒ Reduce public housing vacancies.
- ☒ Leverage private or other public funds to create additional housing opportunities.
- ☒ Acquire or build units or developments.

☒ **PHA Goal: Improve the quality of assisted housing**

Objectives:

- ☒ Increase customer satisfaction.
- ☒ Renovate or modernize public housing units.
- ☒ Demolish or dispose of obsolete public housing.
- ☒ Provide replacement public housing.

☒ **PHA Goal: Increase assisted housing choices**

Objectives:

- ☒ Implement public housing or other homeownership programs.

☒ **PHA Goal: Provide an improved living environment**

Objectives:

- ☒ Implement measures to deconcentrate poverty by bringing higher income public housing households into lower income developments.
- ☒ Implement measures to promote income mixing in public housing by assuring access for lower-income families into higher-income developments.
- ☒ Implement public housing security improvements.
- ☒ Designate developments or buildings for particular resident groups (elderly, persons with disabilities).

☒ **PHA Goal: Promote self-sufficiency and asset development of assisted households**

Objectives:

- ☒ Increase the number and percentage of employed persons in assisted families.

Any of the goals and objectives identified above will have a dramatic effect on how a Housing Authority uses capital resources to support its statement of mission. Subsequent sections of the PHA Plan (particularly the Annual Plan component) provide an opportunity to identify major capital initiatives to be carried out in light of the broader goals and objectives to which the agency has committed itself by virtue of the simple act of placing an "✓" in a box!

This added flexibility is a direct result of the PHRA's recitation of its overall purpose: "(to) assist States and ...to remedy the unsafe housing conditions and the acute shortage of decent and safe dwellings for low-income families" (Section 505).

Once a Housing Authority identifies how it will address deconcentration of poverty and income targeting (as evidenced by a number of goals and objectives contained within the PHA Plan process), which is discussed in more depth in Chapter 3, it has wittingly or unwittingly committed itself to a path that may have great implications vis-à-vis the use of available capital resources. With properties that do not currently appeal to certain families, an investment of capital resources may be needed to entice them.

The PHA Plan template guides each agency through a careful consideration of actions such as demolition, disposition, conversion to Section 8 vouchers, designation of housing as elderly-only or disabled-only, pursuit of HOPE VI (or, more accurately, use of mixed-finance methods), and other major initiatives that serve to support the mission statement. In this regard, the challenge is

to determine which investments of capital funds are worth making on a site-by-site basis.

In order to make these determinations, and if a Housing Authority has the available resources, a property-specific 20-year Capital Plan forecast is a very good idea. In most cases, this will require professional assistance. Hopefully, Housing Authorities will be able to budget the funds needed in this regard. Once complete, the forecast can be updated annually by site staff, but a fresh study should be performed by outside professionals every five years.

As will be seen in the next chapter, some Housing Authorities (particularly small ones) may be able to afford to create a private sector-style Replacement Reserve from available Capital Fund Program resources. For others, this might be a longer-range strategy. Meanwhile, Capital Funds may be looked upon as an "investment pool" in support of the Housing Authority Mission stated in the PHA Plan.

Regardless of the methodology one uses to decide which investments of Capital Fund resources are worth making, the previous focus on the physical needs assessment (PNA) process and how well a Housing Authority is meeting those needs, has been broadened. This is because the new Capital Fund Program provides a much wider range of potential capital initiatives. The linkage of the new program to the PHA Plan provides a whole new perspective for deciding whether it is succeeding, i.e., how well does it support the mission and the strategic goals? Regardless of what you plan to do, you must use the funds efficiently.

### Implementation

Once the Housing Authority is confident that the planning process has been fully addressed, it moves into the next phase — implementation. This is the area where the quality of planning comes to bear and where a host of problems may arise.

### Warning Signs

- No explicit plans for developments' long-term future. If you find that you are rehabilitating a development without a clear recognition of how that development fits into your 5-Year Plan for the entire Authority, you may be using your funds unwisely.

- Excessive change orders. A few change orders may be expected in any contract. However, when the request for change orders becomes an issue in carrying out the work and you find yourself having to respond to such requests on a frequent basis, you should be alerted that there is something wrong with the way you have budgeted for the job or developed the plans and specifications for the job.
- Substantial complaints regarding the quality of completed work. Again, some complaints may be inevitable. However, where this becomes a problem, you probably need to be alert to a possible systemic problem in the way the contractors you hire are carrying out the work.
- No system for detecting contractor "debarment." If you do not have a system for checking on this you are asking for trouble at some stage of the process.

### Solutions

- Planning and Physical / financial assessment. As discussed in the first part of this chapter, planning is key. You should have a clear plan for the entire Authority. And as discussed in Chapter 10, you need a complete assessment of each development. These tools are essential to have in hand as you make determinations as to how to use your funds.
- Make sure contracts are awarded to qualified/competent contractors. This solution and the next solution are closely related. Both relate to the award of the contract. Remember that the person(s) to whom you award the contract will determine to a large extent how that work is ultimately completed. Therefore, you must take care to award to competent, qualified contractors. You must have in place a system for checking on the status of a potential contractor; specifically, has the contractor ever been debarred or had an adverse history with the Authority or the community? All contractors are required to have a certificate of previous participation (HUD 2530). You should have in place a system for checking on this.

- Take a systematic look at how contracts are awarded. The occurrence of change orders is to be expected at some point. However, as noted above, when they become frequent, you must take a systematic look at how you are awarding contracts. Were your budget estimates realistic? Were your time frames for completion of work realistic? Were the plans and specifications comprehensive and reflective of the work that had to be done? One of the best ways to deal with this area is to consider competitive negotiations as a key method of procurement. This process is discussed in a later section of this chapter. If properly used, it allows you to obtain the most information from prospective contractors regarding their costs, their proposed methodologies, and the bases for their bids. Whether or not you choose to use that process, make sure that you systematically examine the award of contracts along every step of the way to avoid the occurrence of change orders attributable to a lack of clarity on the part of contractors as to how work is to be done, and at what cost.
- Make sure that the work is inspected by competent staff. The ultimate test for the work that is performed is the quality of that work. Where you find that poor quality of work is performed, again you must look at the issue systematically. First, did you take quality of work into account when you were developing budget estimates for the work? Was this factored into your specifications and therefore into the bids/proposals that you received for the work? Once the work was underway, did you have someone overseeing the work who really knew what to look for? This last factor is critical. You must have confidence in the person who inspects the work as it is ongoing and those inspections must be frequent enough to determine problems before it is too late to correct them.

#### **Obligation and Expenditure of Funds.**

This is one of the biggest recurring problems that Housing Authorities seem to face.

#### **Warning Signs**

- On a work-item-by-work-item basis, if a particular job is not continuing to move smoothly through the steps of design to bidding to award to construction, some intervention may be required.
- On a more global level, the typical Housing Authority (including all but the very largest) should expect the following:
  - after one year, somewhere around 75 percent of all funds should be under contract, leaving only the most complex work items (requiring specialized architectural design) not yet under contract;
  - after 18 months, all work should be under contract, and at least 25 percent to 30 percent of all funds should be expended, leaving only the largest and/or complex work items still being worked on; and
  - after 36 months, all work should be completed, and either paid for or have Final Inspections and contract close-outs underway.

HUD historically has allowed 18 months to get work obligated, with another 18 months to get all funds expended within a given budget. These time frames should be more than adequate.

#### **Solutions**

Several tools exist to assist Housing Authorities in keeping their modernization programs moving forward. These include:

- Early preparation of plans and specs
- Fungibility
- Expediting
- A new budget line-item known as "Operations" (account number 1406)

#### **Early preparation of plans and specifications**

Housing Authorities are well-advised to have plans and specifications prepared as early as possible so that when the funding is provided, they will be ready to go. HUD is now beginning to link the release of Capital Funds to the start of the PHA Plan year. This will accelerate funding, and further strengthen the PHA Plan as the centerpiece of a truly comprehensive and proactive planning process. This kind of stable, multiyear planning process enhances the ability of Housing Authorities to use initial years' funding to get necessary design work done, allowing contracts to be awarded (and funds obligated) very soon after each year's allocation.



**Fungibility.** This refers to moving unobligated work items from one budget to another. This is helpful where a work item in an older budget is stalled for some reason, such as a shortage of contractors willing to bid on the item or the failure of a selected contractor to furnish payment and performance bonds, etc. Suppose that a re-roofing job estimated at \$75,000 is stalled in a Housing Authority's FFY '97 budget. One would "transfer" that item to a later budget (such as the '98 or '99 budget, which buys time to obtain more bids or straighten out the bonding problem). Then, one would move an unobligated work item (in whole or in part, but in the amount of \$75,000) into the '97 budget, preferably a work item which can be put under contract quickly (thus "obligating" the '97 funds and getting that program back on track).

If the work item being moved into the '97 program appears on any open Comprehensive Improvement Assistance Program (CIAP), Comprehensive Grants Program (CGP) budget, or on the latest 5-Year Action Plan, the Housing Authority can take this action without prior HUD approval. Fungibility permits work items to be moved between and among open budgets as well as from the latest 5-Year Action Plan. In order to take advantage of fungibility, a work item must be listed in the plan. Therefore, Housing Authorities may want to list as many work items as possible within their 5-Year Plans.

**Expedition.** This refers to moving obligated and/or expended work items from one budget to another. It allows an older program to actually be closed out, but will require HUD involvement in order to rearrange the accounting within Line-of-Credit Control System (LOCCS). Referring to the above example, suppose the stalled roofing job was the only thing holding up the closing out of the '97 budget. The Housing Authority could choose to move \$75,000 worth of obligated-and-expended work into the '97 budget. It would presumably choose all or part of a work-item in a later budget such as its '98 or '99 programs. That would permit the '97 budget to be closed out. In order to "replace" the item taken from the later budget, any work item that appears on any open CIAP or CGP budget, or on the latest HUD-approved CGP 5-Year Action Plan, could be included. An Authority might simply flip-flop the \$75,000 re-roofing work item, assuming that work is still a high priority.

**Operations.** This budget line item (BLI) was created several years ago and it gives Housing Authorities the option to move CGP or Capital Fund money into their operating accounts. When

capital funds are drawn out of LOCCS for operating purposes, those funds are considered instantly obligated and expended. This not only helps offset year-to-year fluctuations in operating subsidy, but also can be used to instantly close out older budgets without having to get HUD to "fix" LOCCS. This only applies to federal fiscal years '97 and prior, (limited to no more than 10 percent of the budget) and to Federal Fiscal Year 2000 and beyond (limited to 20 percent of the budget for troubled agencies and/or Authorities of 250 or more units, with flexibility of up to 100 percent for non-troubled Housing Authorities of less than 250 units). Similar action was never authorized for Fiscal Years 1998 and 1999.

### A Word About Competitive Negotiations for Capital Work

The essence of HUD procurement regulations (found at 24 CFR 85.36) is that public-spirited procurement shall be conducted so as to encourage "full and open competition." In this vein, the regulations describe four methods of procurement:

- small purchase procedures
- sealed bids
- competitive proposals
- noncompetitive proposals

Small purchase procedures (simply requiring *price or rate quotations from an adequate number of qualified sources*) apply when the value of the procurement is less than the "simplified acquisition threshold" (currently set at \$100,000) or a lesser amount established via State law.

Asset Management entities typically take advantage of the "relatively simple and informal procurement methods" allowed by 85.36 for small purchases and attempt to get site staff to do the contracting for most of the activity identified on their Capital Plans. Sometimes, big-ticket work will, by necessity, fall under one or more of the other methods.

Sealed bids are considered appropriate for construction when "(a) complete, adequate, and realistic specification... is available," and when "the procurement lends itself to a firm, fixed price contract and the selection of the successful bidder can be made principally on the basis of price" (85.36(d)(2)(i)).

The essential question here, in the case of work involving rehabilitation of 50-year-old buildings, extensive digging into long-forgotten underground piping, etc. is whether existing conditions and scope of work can be specified to a sufficient degree of certainty to allow sealed bidding. In fact, most major rehab involves uncertainty. If bidding is used

in such instances, there can be a fundamental mismatch between the actual conditions known to the Housing Authority and the sealed bids (and methodologies) proposed by the initial bidders. It can be argued that sealed bidding is not the way to go in instances where a considerable degree of uncertainty will exist.

Competitive proposals are warranted, according to 85.36(d)(3), when conditions are not appropriate for the use of sealed bids. This method provides for contract awards to "the responsible firm whose proposal is most advantageous to the program, with price and other factors considered..."

(85.36(d)(3)(iv). The overall objective of *advantage* often gets overlooked in procurement process.

Another aspect of 85.36, which is often overlooked, is the reference [(85.36(b)(7))] to *value engineering*. To quote that section of the regulation, "value engineering is a systematic and creative analysis of each contract item or task to insure that its essential function is provided at the overall lower cost." That subparagraph begins with "grantees and subgrantees are encouraged to use value engineering..." This concept is applied to determine if a proposed contractor is "responsive," that is, the contractor clearly understands the work and has appropriately structured the work approach and price. In this light, competitive negotiation provides the opportunity for value engineering to be used, which affords the Housing Authority

the advantages of clarity of work scope, methodology and price, while still complying with the principles of "full and open competition" (24 CFR 85.36(c)(1)).

The competitive negotiations method accomplishes this through the interview process (where work methodology, sequencing, and other aspects of the approach to the job can be discussed) and the ability to ask for one or more Best and Final Offers (BAFO).

Great care must be taken, in recasting the contract and invitations-to-bid boilerplate, to reflect the use of the Request for Proposals (RFP) as the desired submittal format. Housing Authorities must remember that all RFPs must include a published set of ranking criteria as part of a point system. A selection panel is used to rank the proposals and determine those firms that have a reasonable chance of being selected (e.g., the "competitive range").

In this way, a contract can be negotiated with the most qualified firm that will reflect the agreed-upon methodologies and cost savings that emerged from the interview and BAFO process, and that ultimately will prove a win-win for both Housing Authority and contractor.

Non-competitive proposals may be used only under a very specific set of circumstances. See 24CFR85.36 for a full discussion of these circumstances.

#### Where can you find help in this area?

- Federal Register, Vol. 65, No. 85, May 2, 2000, Department of Housing & Urban Development, 24 CFR Part 905, Allocation of Funds Under the Capital Fund, Capital Fund Formula; Final Rule Amendment. Final Rule, March 16, 2000 Vol. 65. No. 52.
- HUD Guidebook 7485.3G (Comprehensive Grant Program Guidebook).
- Mixed Finance Guidebook, Abt Associates, December 21, 1998.
- HOPE VI Grant Implementation Guidebook, October, 1999.
- Super Notice of Funding Availability, Federal Register, February 24, 2000.

**CHAPTER 10:**

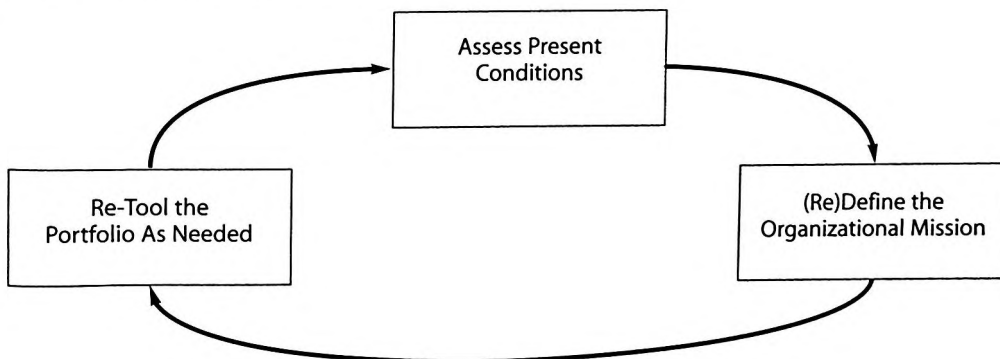
# Asset Management

**Important Functional Areas for Housing Authorities to Address\***

Functional Areas	Warning Sign	Solution
Asset Management	Housing Authority does not understand asset management nor does it annually assess "present" condition.	Obtain training in Asset Management techniques and seek to apply them appropriately to Housing Authority operations.
Asset Management	Housing Authority does not take into consideration all possible options at its disposal to achieve its mission.	Adopt Asset Management techniques and explore appropriateness of various strategies (buy, sell, hold, build, manage, administer, etc.).
Asset Management	Housing Authority does not have a system that permits site-based collection of data and analysis.	Develop an accounting and budgeting system that provides data on a site-by-site basis; use data to assess the financial and physical condition of each site and how it fits into the mission.

\*Additional warning signs and solutions are contained within the chapter.

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**Housing Authorities should use Asset Management Strategies and Tactics**

## LESSON LEARNED:

**Asset Management is a concept that will help you maximize your ability to provide low-income housing in your community.**

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This chapter builds on a theme running through this Guidebook—the adoption of a business mentality in the operation of Housing Authorities. It uses the Asset Management-based “business cycle” shown in visual form on page 63 and listed below:

- Assess Present Condition (Physical & Financial)
- [Re] Define Organizational Mission
- Retool the Portfolio

The advent of the PHA Plan (5-Year Plan and Annual Plan) process and template is very relevant to and supportive of the kind of “business” planning promoted in this Guidebook. Readers are encouraged to consider the ideas discussed below in the context of the mission of Housing Authorities—providing affordable housing to low-income families. The use of Asset Management principles in a Housing Authority ought not to distract it from this mission, rather it should offer new strategies to achieving the mission in ways not previously envisioned.

### Assessing Present [Physical] Condition

In order to run an Authority you must know the condition of your housing stock. Private businesses continually assess their Present Condition. There are compelling reasons why Present Physical Condition will receive a great deal of attention in the public real estate arena. Principal among these are the Uniform Physical Condition Standards (UPCS), a set of benchmarks based on the notion that all publicly funded multifamily property should be “decent, safe, sanitary, and in good repair.” To give teeth to this perspective, HUD has put into place an inspection protocol that will be implemented at each of the Nation’s 40,000 subsidized or public housing properties. Known as the Physical Assessment Subsystem (PASS), it is used by third-party inspectors in what is becoming an annual “rite of passage,” the Real Estate Assessment Center (REAC) inspection.

This protocol is capable of providing a wealth

of quantitative information about the Present [Physical] Condition of each property within a Housing Authority’s portfolio, and at no cost. Other sources of information available to Housing Authorities in the assessment of Present [Physical] Condition are in place thanks to the prompting of HUD’s assessment systems. These include:

- The results of the agency’s own annual inspections of *all* units (vs. the REAC sampling technique) and its inspections of sites, buildings, and systems in accordance with its own Maintenance Plan.
- An analysis of the maintenance work orders processed each year from all sources, including the Maintenance Plan, as well as from annual inspections and resident call-ins.
- The information emerging from a Housing Authority’s inspection and maintenance activities can, if properly collected and analyzed, provide considerable knowledge regarding the capital needs of each property (assuming such data is available separately for each site). However, this data is supplemental to, and not a replacement for, a property-specific **Capital Plan**.

A rigorous, long-term, property-specific analysis is a critical element in the ongoing assessment of Present [Physical] Condition required by good business practice.

As with other functional areas, PHAs can suggest useful barometers with regard to capital needs. Certainly the REAC inspection score can shed light on capital needs as well as on maintenance shortcomings. Annual inspection results and work order response times can also be illuminating, from a capital perspective. This is only true, however, if one’s inspection and work order systems have enough underlying detail to allow management to differentiate between failures in physical components versus shortcomings in training, supervision, resident selection, lease enforcement, or other “people-related” issues.

### Assessing Present [Financial] Condition

In addition to knowing the physical condition, you must know the financial condition of your stock. Assessing an organization from an Asset Management perspective includes the performance of a *financial* analysis (assets represented by real estate are seen as interchangeable with other kinds of assets that appear on a Balance Sheet, but in all cases are quantified in dollars).



Three major components should be included in any system for measuring an Asset Management entity's present financial condition. These are:

- Operational ratios of various kinds;
- Site-based operating budget information; and
- Site-based capital needs information.

**Operational Ratios.** In the financial arena, the Public Housing Assessment System (PHAS) provides Housing Authorities with a number of private sector-based operational ratios, which should be tracked on an ongoing basis.

**Site-Based Operating Budgets.** Site-based operating budgets are critical to a businesslike posture because a Housing Authority's primary "product line" typically consists of one or more multifamily complexes. Each of these complexes is unique, in terms of location, public perception, community character, size, construction type, amenities and attributes, staff capability, and any number of other distinguishing characteristics. A property's potential to generate revenue (and its actual revenue results) and its cost to operate will differ from site to site and these variances serve to differentiate one "product" from another.

**Site-Based Capital Budgets.** One fundamental "lesson learned" is the critical need for site-based Capital Plan forecasts, which must be tailored to the existing (and desired) physical condition of each property. A site-based forecast of 20 plus years typically will identify at least one "cycle" of replacement of virtually every replaceable component within a property, whether it be roofs or appliances or heating/cooling equipment.

In conclusion, proper assessment of Present Financial Condition requires a system of measurement that is site-based, where data are computed and reviewed at least monthly. These measures should be made in relation to a corresponding set of benchmarks that represent the "Desired Financial Condition." In the case of site-based operating budgets, this is simply a comparison of actual to budgeted results. In the context of site-based capital budgets, the Housing Authority should be comparing the estimated long-term capital requirements of each property with anticipated resources available for capital needs.

### [Re]defining the Organizational Mission

The process of [re]defining the organizational mission is accomplished on an ongoing basis (at least annually) by assessing the degree of "fit" between Present Condition and Desired Condition.

Every organization needs to decide how it prefers to carry out its overall mission and the goals that support this mission. Regardless of preferred style or strategy, and whether a Housing Authority relies more on artistry or on science in [re]defining its organizational mission, it should be evaluated from an Asset Management perspective. As a Housing Authority decides what it wants to accomplish, and how it intends to get there, an underlying set of value assumptions will be reflected in its decision-making.

A Housing Authority embracing Asset Management principles would be expected to operate from some notion that its portfolio must be capable of financial viability, which is defined as the ability to operate on rent plus foreseeable operating subsidy. There are Housing Authorities that are beginning to gather market-related information for their portfolios, as part of a process of determining which properties, to hold long term and which ones to treat in some other manner. They hire professionals to conduct market studies of their area of jurisdiction and include as part of the scope of work, a determination of the market rents that potentially could be obtained by each property in the portfolio were it not operating under income-based rents.

This process results in accurate calculations of Flat Rents (required by the Public Housing Reform Act) and of Ceiling Rents. It also helps the process of conversion to Generally Accepted Accounting Principles (GAAP). This kind of market-based information is useful both in helping make decisions regarding the existing portfolio and in preparing the 5-Year and Annual plans.

### **Retooling the Portfolio**

This is the third step in the annual business cycle of housing organizations. After Present Condition has been established and Organizational Mission determined, it is necessary to take a hard look at the existing "product line."

In this light, a Housing Authority should consider all Asset Management options in seeking to fulfill its Mission, individually or in combination. These options include:

- Hold existing properties
- Sell existing properties (to existing residents or to investors)
- Manage existing properties
- Manage properties for other owners
- Outsource management of existing or other properties
- Buy other properties in whole or in part
- Build new properties (for sale or rental or both)
- Administer subsidy (Mixed-Finance, Section 8, etc.)

**Hold Existing Properties.** Until recently, Housing Authorities felt compelled to try to modernize their existing property because alternative actions were difficult, if not impossible. One-for-one replacement requirements and the virtual elimination of public housing development money served to limit a Housing Authority's range of action. With the elimination of the one-for-one rules, the relaxation of demolition rules, the ability to use capital funds for a variety of purposes, and the impending freedom to borrow, comes the ability to take a range of actions by way of "retooling" individual properties.

Modernization, then, will likely become as much about capital replacement planning as about bringing old properties up to "MOD standards." It also will likely be just as concerned with achieving deconcentration of poverty within a community than with chipping away at the old shopping list known as the Physical Needs Assessment. One way to hold onto strong-performing properties, while still generating additional resources, is to borrow on those assets.

Many properties will be able to borrow against their stream of capital funds to finance modernization in support of their Mission.

**Sell Property.** By the same token, there are instances where continuing to hold a given property would be inconsistent with a Housing Authority's Mission. It may also want to promote homeownership by selling units to existing residents, perhaps in support of self-sufficiency

programs the PHA may be implementing. It may be a critical step in retooling, which is commensurate with a Housing Authority's Mission.

**Manage Property.** Typically, we think of a Housing Authority as a state-chartered organization that owns and manages rental property. Many Housing Authorities, however, have recently experimented with private management, whether it is in connection with a HOPE VI/mixed-finance project or simply out of an interest in bringing in Asset Management principles and practices from the private sector. Some Housing Authorities have engaged private management agents for a portion of their portfolios, creating healthy competition between private- and public-sector management, enabling both sectors to learn from each other. Others (including the nation's second-largest portfolio, which has 58,000 units and is owned by the Puerto Rico Public Housing Administration) are managed entirely by private firms.

At the same time, many Housing Authorities have a history of managing property owned by others including subsidiaries and outside owners. In any event, a decision to manage in-house, vs. outsourcing, should be made consciously, in light of the organizational mission, and in the knowledge that there are a range of options to be considered.

**Buy Property.** Housing Authorities or their controlled subsidiaries may want to purchase properties that help meet their Mission and make sense from a business point of view. As Housing Authorities begin to exercise the authority to borrow more frequently, the purchase of properties in the marketplace becomes more and more feasible.

A forward-thinking Housing Authority may seek to place as many of its residents as possible into mixed-income settings where they are not subject to the stigma of public housing. So, the Housing Authority might step forward and offer to "buy in" to those deals, providing needed cash in exchange for a certain number of units being set aside for its income-eligible households. This arrangement can be accomplished via long-term leases and can conceivably bring with it "portable" public housing operating subsidy!

**Build New Units.** Although the Public Housing Reform Act (and modernization regulations dating to 1996) permit the use of modernization funds for building new units, Housing Authorities should take the advice of private-sector developers, who always attempt to use "someone else's money" in financing new



properties. So, whether building for use as rental housing or for resale under a homeownership program, Housing Authorities are well-advised to seek to leverage a number of funding sources (perhaps including debt as discussed above) in the creation of "mixed-finance" deals. This strategy gets a bigger "bang for the buck" than attempting to pay the costs of new construction dollar-for-dollar.

**Administer Subsidy.** A Housing Authority may decide that it wants only to administer subsidy, and not directly own any property. Section 8-only Housing Authorities fall into this category, but the Public Housing Reform Act gives Housing Authorities administering public housing the option to convert units to Section 8 vouchers. The strategy of "controlling" units (and furnishing operating subsidy under a mixed-finance approach) would also move a Housing Authority away from direct ownership of property and into a purely subsidy-administration role.

Regardless of which retooling options are pursued, they will affect a Housing Authority's Capital/Modernization/Development activities and budgets and must also be reflected in the PHA Plan.

### Warning Signs

- Lack of comprehensive assessment and planning as discussed throughout this document.
- Lack of understanding of available options.
- Lack of awareness of the viability of each development and/or lack of necessary action to address problem developments.

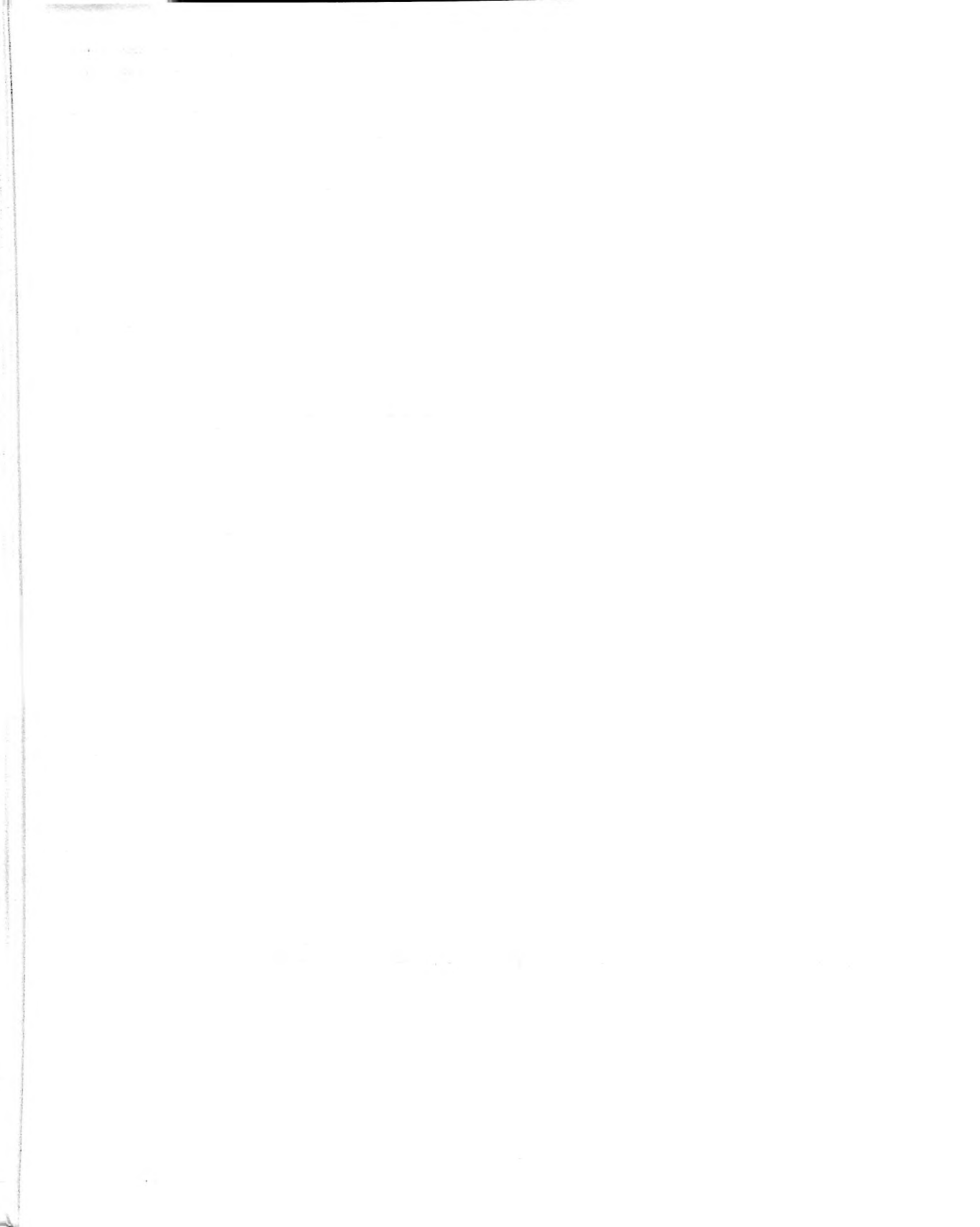
### Solution

- Review the strategies discussed in this document and particularly in this chapter. Determine the need for the implementation of alternative strategies in your Authority.
- Obtain the necessary expertise to implement the strategies as appropriate.



### Where can you find help in this area?

- Consortia of Public Housing Agencies and Joint Ventures: Proposed Rule, 24 CFR Part 943. Federal Register, Volume 64, No. 177, September 14, 1999.
- "Private Management of Public Housing: A Guidebook" July 1997; HUD-1684-PIH. Available through HUD User, P.O. Box 6091, Rockville, MD 20849 or through [www.huduser.org/publications/pubasst.html](http://www.huduser.org/publications/pubasst.html) (text-only version).
- Refer to the documents listed for help in Chapter 9 in addition to those listed here.



## CHAPTER 11

## Conclusion: A Final Word on Lessons Learned.

A number of truisms have emerged from work with a wide range of Housing Authorities. We believe that the following, although brief in nature, represents valuable guidance to professionals in the field of public housing, particularly to those who may be relatively new to the field.

- **Be involved and committed.** If involvement and commitment does not exist for the Commissioners and the Executive Director, it will not exist for the staff, and it is only a matter of time until their Housing Authority falters.
- **Develop a vision and using that vision, build a mission and goals with the participation of all stakeholders.** Be inclusive in the process rather than exclusive. Build partnerships. Identify goals and objectives that will fulfill the mission and achieve the vision. Communicate the results to all staff so that it may guide their work.
- **Establish a training program** that develops all staff both in required job knowledge and in personal growth. Don't be afraid of losing employees after they are trained at your expense. They will probably leave (and more quickly) if you don't train them. Most will stay and be appreciative of the benefits that they have received.
- **Empower employees** by involving them in decisionmaking and planning. An authoritarian or "plantation" style of management may be part of our history, but it has no place in our present or future. It is not effective and it does not permit the growth and development of employees who can help to bring excellence to your Housing Authority.
- **Empower your residents** for the same reasons. For too many years, public housing residents

have been "warehoused" in the "projects" and their potential has been wasted. Make residents partners in the operation of the housing in which they live. Share the responsibility and let residents grow from that experience.

- **Conduct random quality-control audits or inspections** for all areas of work to verify accomplishment of goals and expectations. Don't do this with a "gotcha" mentality but rather, involve staff in the achievement of excellence.
- **Connect with other Housing Authorities, HUD, other organizations, and professionals in this and related fields** for the support and advice that you may need. Network and use the resources that you find in doing so. You are not alone. Don't isolate yourself.

“Form a group specifically for small housing authority directors in your area and meet monthly to discuss a specific topic, rewrite plans and/or policies, invite a speaker or just brainstorm.”

PEMBROKE, MASSACHUSETTS

- **The primary mission of Housing Authorities is to provide affordable housing.** Don't lose sight of it! Direct your efforts to three key areas of performance related to the operation of this housing.
  - ✓ Maintain quality housing
  - ✓ Keep it occupied
  - ✓ Collect the rent

If you do these three things well then half the battle is won!





- **Know the rules and requirements** for public housing programs and stay current on changes to them. Use technology to do this more effectively.
- **Develop sound policies and procedures** consistent with the Housing Authority's vision and mission. Keep them current and relevant and readily accessible to staff, residents and the public. Apply them consistently!
- **Document, Document, Document!** If you can't prove it, it doesn't count. Submit HUD reports accurately and on time. Develop internal reports that provide necessary management information and can demonstrate progress toward goals and objectives. Keep them in a logical, systematic manner so that they may be retrieved as needed.
- **Consider your organizational structure and how effective it is in delivering housing services.** For small Housing Authorities, the growing complexity of public housing administration and management presents a serious challenge. Considering joining with one or more neighboring Housing Authorities to form a consortium or partnership to deal with issues of staffing, overhead, and economies of scale that may be achieved. Address common needs in a more efficient manner.

- **Consider the use of all options available through the use of Asset Management principles.** Use those strategies and options that may be available under PHRA to maximize the good work that your Housing Authority does.

Good luck to you in your very important mission!

Damian A. Colden, PE

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Ronald L. Oldham, SPHM

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National Association of Housing &  
Redevelopment Officials

NOTES

## NOTES

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